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DECREASING BUDGET FLEXIBILITY FOR COMMANDERS OF MARINE CORPS INSTALLATIONS IN THE PACIFIC: SOURCES, SIGNIFICANCE AND SOLUTIONS

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ABSTRACT

This thesis establishes the importance of budget execution flexibility at the installation commander level in terms of efficient allocation of resources. It then documents the erosion of budget flexibility from fiscal year 1988 to fiscal year 1992 at three Marine Corps installations: Marine Corps Air stations, El Toro, California and Kaneohe Bay, Hawaii, and Marine Corps Base, Camp Pendleton, California. Two primary sources of erosion are identified: 1) increasing spending requirements in the form of mandates from higher authorities and rising fixed costs, and 2) decreasing top-line budget authority. The significance of decreasing flexibility is examined based upon the analysis of budget data gathered from all three subject installations. Finally, potential solutions are offered for all levels in the budget hierarchy. Although the data are obtained from Marine Corps installations, the analysis and results are pertinent to all military installations.

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I. INTRODUCTION

A. BACKGROUND

Traditionally, military commanders have had both the responsibility and the authority for making a wide range of decisions necessary for the operation of their bases and stations. The authority for these decisions is rooted in the ability to allocate scarce resources against competing needs and the flexibility to determine which needs should be met at a given time. This flexibility is eroded whenever the total budget authority is reduced while requirements are held constant, or the spending requirements for the command are increased while the budget is held constant, or a simultaneous combination of both phenomena.

Over the past several years, the politicization of the budget process and changes resulting from congressional defense budget legislation have greatly impacted the decision-making capabilities and processes of today's military commanders. One of the most significant impacts has been diminished budget flexibility for military commanders at the base and station level.

Increased congressional requirements have trickled down through the DoD, the Department of the Navy (DoN), and Headquarters, Marine Corps (HQMC). At every level, the need to respond quickly to congressional budget inquiries has led to an increase in the amount of funding that is centrally managed and

directed. For example, not only does the Defense Appropriations bill for 1992 contain specific line-item directions in the Operation and Maintenance, Marine Corps (O&MMC) appropriation, according to the appropriation sponsor at Headquarters, Marine Corps (HQMC), this appropriation is further divided into 31 centrally managed funds within the Marine Corps.

The net effect of these restrictions on O&MMC spending is a decrease in the budget flexibility of the base and station commanders who depend on the O&MMC appropriation for the majority of their budget functions. As stated earlier, if increased restrictions are combined with decreased total funding levels, budget flexibility is further degraded.

This research will highlight the impact of increased congressional and higher headquarters budgetary requirements on base and station commanders. This thesis is important to the field of study because little previous research documenting the impact of congressional and higher headquarters requirements on the budget flexibility of installation commanders has been identified. This study will begin to fill this gap.

B. OBJECTIVES

This thesis will first establish the existence of decreasing budget flexibility through historical analysis of discretionary spending amounts in the Operation and Maintenance Marine Corps (O&MMC) Appropriation for base and station budgets in the Pacific. We will then identify the major contributing factors or

sources of this decrease in Commanding Officers' budget flexibility. The sources to be discussed include the following:

- macro-economic and national policy developments which have resulted in a shrinking defense budget.
- increased oversight and spending requirements mandated by Congress.
- spending requirements levied upon commanders by the Department of Defense (DoD) budget chain.

The discussion of sources of reduced flexibility will be followed by an analysis of the impact of budgetary restrictions on base and station commanders. This analysis will focus on the required trade-offs involved in the allocation of scarce resources to competing functional requirements.

Finally, this thesis will present some possible solutions to the commander's budget dilemma. These solutions will be formulated based upon the results of our research, and recommendations from financial managers, comptrollers and commanding officers throughout the Marine Corps.

C. THE RESEARCH QUESTION

Primary: What is the impact of increased spending requirements and decreased funding on the budget flexibility of base and station commanders?

Subsidiary:

1. What portion of base and station budgets is non- discretionary?
2. To what extent has the discretionary portion of base and station budgets been reduced from fiscal year 1988 to the present?

3. What are the sources of decreased discretionary funding or increased requirements?

4. What budget strategies or other alternatives can the commander employ in order to maximize his budgetary resources, given the number of higher headquarters and congressional mandates?

5. What changes can be made to existing budget fences and restrictions to allow commanding officers increased flexibility in making resource allocation decisions?

D. SCOPE, LIMITATIONS, AND ASSUMPTIONS

1. Scope

The scope of this thesis is an analysis of the impact of increased spending requirements and decreased funding on the budget flexibility of Marine Corps base and station commanders within the Pacific. The focus of this research will be the O&MMC appropriation. Other appropriation accounts were excluded because of their irrelevance to the issue of installation budget flexibility.

The specific installations we examined are as follows: Marine Corps Air Stations (MCAS), Kaneohe Bay, Hawaii and El Toro, California, and Marine Corps Base (MCB) Camp Pendleton, California. No other installations were included due to time and monetary constraints.

Budget execution data gathered from the above installations is from fiscal years (FY) 1988 to 1992.

2. Limitations

Due to limited requirements for retention of official documents, we were unable to obtain comprehensive data for any installation prior to FY 1988. In addition, varying retention practices among installations created difficulties in obtaining completely comparable data for all installations examined.

3. Assumptions

We are assuming readers of this thesis to have a basic knowledge of the Planning, Programming, and Budgeting System (PPBS) and the relationship between the legislative and executive branches in the context of budgetary matters. We further assume readers possess a rudimentary understanding of congressional oversight of the defense budget.

E. LITERATURE REVIEW AND METHODOLOGY

1. Literature Review

We have drawn upon professional literature in the areas of budget execution, congressional oversight, and the defense budget. Our purpose in studying this literature is to establish the importance of budget execution flexibility and the negative impact of congressional oversight and a decreasing defense budget on the budget flexibility of installation commanders.

2. Methodology

Research data for this thesis has been collected in a number of different ways. Archival research on the background of budget flexibility, congressional oversight, and the defense budget was conducted using literature addressing these topics. The necessary archival budget data has been gathered during site visits to the installations identified in the **Scope** paragraph. Potential solutions to minimize the decreasing budget flexibility problem have been solicited through personal and telephone interviews with financial managers throughout the Marine Corps. Our analysis will establish trends in budgetary restrictions for base and station commanders. Sources of restrictions will be identified wherever possible.

F. ABBREVIATIONS

Appendix A contains a complete list of the abbreviations used in this thesis.

G. ORGANIZATION OF STUDY

This thesis will explore the premise that flexibility of budget execution at the base and station command level is more likely to result in an efficient allocation of scarce resources than is increased control of funds by higher headquarters.

As outlined above, we will establish, through research of installation budgets, that budget flexibility for installation commanders has eroded since 1988. Our goals will be to highlight the impact on Marine Corps installations of budget restrictions by higher authority and to provide recommendations for increasing the budget flexibility of these installations. Although our research is based on data

generated at Marine Corps installations, this thesis relates directly to budget execution within all branches of the military, and the federal government.

Our first effort will be to define budget flexibility and to discuss its importance to the installation commander. This discussion will incorporate references to traditional Marine Corps leadership as well as a thorough review of pertinent literature on the topic of budget flexibility.

Following the chapter on budget flexibility, we will provide the reader with a historical background on the development of the congressional oversight process, higher headquarter funding controls, and the declining Department of Defense (DoD) budget. These chapters are intended to document the mechanisms which have significant impact on budget flexibility levels.

As we shift our focus toward the actual data and findings of our research, we will introduce the Operation and Maintenance, Marine Corps (O&MMC) appropriation budget, tracking its composition and flow from Congress to the installation commander level. Here we will identify specific budgetary restrictions imposed on installation commanders, with special attention given to the sources and rationales for these restrictions.

At this point we will present the data gathered in support of our research and perform analysis and interpretation of these data. This analysis consists of a comparison of an installation's fixed costs and higher authority spending requirements with the financial resources that are made available to the local commander. As will be shown, the former are rising while the latter is falling.

Once the data have been analyzed, we will highlight the impact of decreasing budget flexibility.

In addition, because of the importance of the Defense Business Operations Fund (DBOF) and its potential impact on budget flexibility for installation commanders, we will include a brief discussion of the implications of the DBOF for local commanders' budget flexibility.

Following our discussion of the impact of decreasing flexibility, we will offer potential solutions and recommendations. The final chapter will present our conclusions.

II. BUDGET FLEXIBILITY AND THE BUDGET BATTLEFIELD

As evidenced by the title of this thesis, our research centers on the issue of budget flexibility. Before we begin examining the installation budgets that comprise our data, we must first define budget flexibility and why it is important to installation commanders. We will establish that flexibility at the installation commander level is integral to the efficient allocation of financial resources and that continued shrinking of budget flexibility will exacerbate DoD inefficiency.

A. WHAT IS BUDGET FLEXIBILITY?

One of the simplest ways to explain the concept of budget flexibility is in battlefield terminology. In this sense, the installation commander is essentially doing battle by employing scarce resources to combat rising costs in the support of Fleet Marine Force units. The point here is battlefield initiative. Initiative is what budget flexibility is all about. For over 217 years, Marine Corps leaders have been instilled with the importance of exercising initiative. From the raising of a small force of mercenaries by Lieutenant Presley O'Bannon in the war with the Barbary pirates, to the daring nighttime attacks across the trenches by General John A. Lejeune's Second Division in World War I, to the appropriation of U.S. Army vehicles in order to prevent their theft by the enemy during the Gulf War, one trait above all others has been lauded in Marine leaders of every

era—initiative. When executed with maturity of thought, within the guidelines expressed by higher headquarters, and with knowledge of the activities of adjacent units, initiative is what sets the extraordinary commander apart from the rest.

Budget flexibility then, like battlefield initiative, is the ability to adjust to change, to take advantage of windows of opportunity as they arise to achieve operational efficiency objectives. In short, it is the freedom given a commander to execute a budget unfettered by excessive restrictions, in a manner dictated by the situation at hand, rather than by the situation anticipated eighteen months to two years earlier. Looked at another way, budget flexibility at the command level is the authority to execute the missions for which the commander has been given responsibility, determined by sound judgement, which is a prerequisite for achieving command.

The term flexibility will be utilized both qualitatively and quantitatively throughout this thesis. An algorithm useful for quantifying a specific dollar amount of execution flexibility resident in any installation budget is developed in the section on methodology. In addressing the qualitative dimension of budget flexibility, it is imperative to analyze why budget flexibility is important to installation commanders. The next section will provide an answer to this question.

B. WHY IS BUDGET FLEXIBILITY IMPORTANT?

Referring again to our battlefield initiative metaphore, there are three reasons why budget flexibility is important. First, as outlined above, Marine Corps commanders are expected to display initiative in dealing with the obstacles which they encounter. By tying the commander's hands with excessive budgetary restrictions, we are sending the conflicting message that initiative and adaptation to changing circumstances are not important.

Second, if a commander's budget flexibility is eroded to the point where virtually no initiative can be exercised, we are diminishing the effectiveness of one of the most important weapons we possess in the battle against inefficient allocation of financial resources, i.e., the use of good judgement by commanders and comptrollers. In the current austere budget environment, the Marine Corps cannot afford budgetary inefficiency.

Third, the commander is in a much better position than higher authorities to determine the most efficient allocation of resources for the day-to-day operations of the installation. In combat, few, if any, headquarters issue detailed orders to their maneuver elements that describe the exact actions to be taken over every foot of ground to be covered. Flexibility is maintained by issuing brief orders (fragmentary or "frag" orders) that outline the objectives to be achieved, and the situation and resources at hand. The actual details of the scheme of maneuver are left to the subordinate commander to determine. As requirements emerge for greater resources (such as close air support), they are requested from

higher headquarters or the appropriate support element. Higher headquarters have the intelligence assets to maintain the big picture, but they realize that the big picture is always somewhat dated. As a result, victory typically can be achieved best by assigning appropriate resources to the unit charged with a mission, and then allowing that unit's commander to employ those resources as he sees fit using flexible judgement and discretion.

The concept of budget flexibility for installation commanders is similar if not identical. Higher headquarters should process requests for additional resources to meet emerging requirements, manage the big picture of financial and budgetary objectives, and apprise commanders of forecasted changes in the fiscal environment. But the freedom to execute should be delegated to the maneuver elements in the battle for streamlined budgets—the commanders of support installations.

The first three reasons given for the importance of budget flexibility are somewhat subjective. Some critics would argue that budgets have more to do with business than battlefields. We maintain that the current budget environment closely approximates a battleground. Further, we have not neglected the fact that budget management is a topic that allows parallels to be drawn between military management efficiency and management in the private sector.

C. THE PRIVATE SECTOR COMPARISON

The DoD has recently attempted to operate in a more "business-like" manner through the implementation of practices such as Total Quality Management (TQM) and the Defense Business Operations Fund (DBOF). Consequently, we have examined a great deal of contemporary research conducted on the subject of budget flexibility in the private sector, and have discovered that there is wide applicability to military budgeting.

Specifically, much of this research has been performed and many articles written on the subject of managers and their budgets. For our purposes in analyzing these articles, we equate the installation commander with a division manager, and Headquarters, Marine Corps (HQMC), DoD and Congress as separate echelons of corporate headquarters, all having a role to play in the budget process.

1. Budget Participation

Much of the relevant management literature focuses on the topic of budget participation at the manager level, and the impact this has on motivation, performance and efficiency. Budget participation takes two separate forms: participation in the formulation of budgets, and participation in the execution of budgets. Arguably, the DoD budget formulation process is completely participatory, in that the budget is built from successive layers of input, starting at the lowest level and moving upward. Even this assumption is open to interpretation, since frequently the budget which is passed down for execution

bears little resemblance to the one submitted during formulation, and a commander is left to ponder the value of submitting a request in the first place.

Likewise, a commander may be constrained by a budget formulated by a previous commander, with different priorities, who has since transferred out of the organization. Be that as it may, the focus of this thesis is on budget execution. Effective management participation in the execution of budgets, as determined in the literature, lies in the degree of freedom, or flexibility, that the manager possesses to deviate from the budget which is handed down from corporate headquarters.

In their 1986 study of managers in the electronics and steel industries, Brownell and McInnis found that "a strong positive relationship is found in the study between participation and managerial performance." [Ref. 1:p. 597]. They further stated that "participation may lead to such things as the introduction of improvements, at the suggestion of the participating manager" [Ref. 1:pp. 597-598]. This ties into the concepts of TQM.

2. TQM

As formulated by its creator, Dr. W. Edwards Deming, TQM is an approach to managing change and innovation. One of the primary points of TQM is that upper management must foster an environment in which subordinates feel empowered to eliminate wasteful procedures. It is, after all, the worker on the shop floor, and not the manager in the front office, who is most likely to see which cogs are not meshing on the production line.

This concept carries over to budget execution where efficiency problems already exist. If DoD is serious about implementation of TQM, and is not just paying it lip service, the installation commanders who execute the budget at the "shop floor" supervisory level should be endowed with the ability to effect changes in the execution process. Just as in Dr. Deming's TQM teachings, commanders should be educated as to the intent of higher authority but, then they must be given the flexibility to exercise initiative and to make decisions leading to efficient outcomes.

3. Fostering Cooperation

A separate, but no less important issue is that lack of participation and flexibility can create antagonism within and between budget activities and a defensive posture among managers. In an organization such as the Marine Corps, which has a highly decentralized command structure, an increasingly centralized budget execution process threatens the authority of installation commanders. Bruns and Waterhouse (1975) state:

> as the organization becomes more centralized and less autonomous, individuals perceive having less independence and more interference from superiors and subordinates on budget matters [Ref. 2:p. 195].

Increased perception of interference, in turn, leads to increased "dissatisfaction with the usefulness of budgets and perceptions of the flexibility and innovation they encourage" [Ref. 2:p. 196]. Similarly, Kamin and Ronen (1981) posit that, "the more structured budget decreases the flexibility needed to motivate subordinates" [Ref. 3:p. 472].

Carruth and McClendon (1984) go one step further in arguing that "it appears that the greater the control established over budgets, the more defensive the supervisor becomes" [Ref. 4:p. 52]. They follow this line of reasoning reaching the following conclusion:

> This 'protect myself' attitude may cause supervisors to wear blinders and concentrate more than ever on their individual worlds. Budgets are supposed to improve communications and, to some extent, cooperation between units. As defensive activities increase, unit biases will become more pronounced; and it is less likely that these biases will be set aside or that the interest of the individual supervisor will be subordinated to the benefit of the organization [Ref. 4:p. 52].

The full cooperation of all participants in the budget process is necessary if we hope to increase efficiency in Marine Corps base operations budgets. The Marine Corps cannot afford to antagonize the very people who are largely responsible for determining the most efficient allocation of resources for each installation. As Carruth and McClendon state, "it generally is accepted that participation in budget affairs...helps to motivate personnel and leads to a higher level of commitment to organizational goals" [Ref. 4:p. 53].

4. Locating Decision Authority at the Action Point

Thus far we have asserted that the installation commander is in a better position in budget execution to determine an efficient allocation of resources than are higher authorities. This point is not one which can be considered as given. However, considerable research supports this contention.

For example, Merchant (1981) is in complete agreement with this position. He notes that "in more diversified firms, lower-level managers are likely to be better informed about the capabilities of their specialized activities" [Ref. 5:p. 815]. The Marine Corps is certainly a diversified firm, with each installation having its own special requirements that cannot be blanketed across the spectrum.

Brownell (1982) concurs that in organizations that face a great deal of day-to-day uncertainty in their budgetary environments, "it will often be the case that the best information base to support managerial decisions will be located at the action point rather than with top management" [Ref. 6:p. 776]. The essence of the problem is that the decision-making authority is removed farther away from the action point with every step up the chain of command; the greater the distance, the less the local problem, impact and solutions are understood. The result of moving control farther away from the action point is the creation of a less responsive, centralized organization. Blandin and Melese (1991) summarize the danger inherent in centralized controls:

> As an extreme case, consider the predicament of managers in the Soviet Union. Historically, the Soviet planning process has acted to fix most, if not all, inputs. The manager is left with little discretion over resource allocation decisions. The Soviet manager thus merely executes a plan, with no regard for the economically efficient use of inputs. Over-centralization and inflexible production processes have contributed to the present disastrous state of the Soviet economy. This situation makes a powerful case for more decentralized managerial decision-making [Ref. 7:p. 16].

Although this quote is related to production processes, it applies directly to the budget context as well. The inputs for a installation commander are the funds authorized for expenditure. If the uses of those funds are specified to the degree that the commander has no discretion over resource allocation decisions, those inputs can be seen as fixed, just as in the Soviet production processes above. The result is the same: an inefficient allocation of scarce resources.

A counter argument can be made that decentralized budget execution will lead to chaos, and the failure of installation commanders to support programs which are important to higher headquarters. However, as stated earlier, sound judgement is a prerequisite for selection for command. The command screening process in the Marine Corps is more thorough now than it has ever been. In addition, the commander must be held accountable for executing the budget in such a fashion that official policies are not subverted. Carruth and McClendon sum up the argument as follows:

> Therefore, a certain amount of flexibility on the part of supervisors concerning how budgeted funds are used may be highly desirable. Holding the supervisor accountable for the results of his decisions supplies the desired balance to the greater freedom of actions given individual supervisors [Ref. 4:p. 53].

In financial management, commanders should be accorded the authority, discretion and trust that they must have earned to have attained command status.

D. THE UNIFIED BUDGET TEST

The DoD conducted a test of the discretionary concept, i.e., according the installation commanders a greater amount of trust, and giving them a level of execution flexibility unprecedented in recent years. According to a March 1988 special report from the Deputy Secretary of Defense, William H. Taft IV, entitled *The Unified Budget Test,* the purpose of the test was to challenge commanders to "improve their ability to carry out their assigned missions by eliminating the predetermined subdivisions in their budgets" [Ref. 8:p. 3].

The conditions of the test were as follows:

> No additional money was given to the six commanders... Commanders at the test installations were to have the greatest flexibility the Department could provide them consistent with the law and Congressional direction... commanders at these installations were to be free to 'trade-in' money from one account for money from another... The Service comptrollers made sure that no more money was spent in any single account than the Congress had authorized and appropriated... The Deputy Secretary also stated that he wanted at least four major accounts included in the test: operation and maintenance, procurement, military construction, and military family housing [Ref. 8:pp. 3-9].

The test was designed to simulate a unified budget, which the report describes as "one without predetermined subdivisions of funds" [Ref. 8:p. 3]. Obviously there were some restrictions which could not be totally removed, but the flexibility granted to the test commanders was quite extensive in terms of freedom to move money between appropriations and accounts.

In addition to eliminating some of the administrative and legal restrictions faced by the commanders in the test, one service took the test a step further and extended flexibility across fiscal years. According to the report, this was done "...within the law by returning money to headquarters for use by other installations during the budget year. The installation had money added to its budget the following year" [Ref. 8:p. 9]. This allowed the commander to become more efficient because he was released from the DoD dilemma of "spend it or lose it." This policy is perhaps one of the strongest barriers to budget execution efficiency because, as the report states, "Taking money away from people who don't spend all of it and giving it to people who run out of money rewards bad managers and punishes good ones" [Ref. 8:p. 7].

The results from the first year of the Unified Budget Test (UBT) were unequivocally positive. The following is a compilation of the results included in the special report:

> The most important result was *a real increase in mission performance.* The Army, which ran the most sophisticated test, demonstrated a three percent increase in mission effectiveness at both its test installations. Analysis of the 'trade-ins' at the six test installations showed that most of the money was in the right place—just where it was predicted to be needed three years earlier. But between seven and ten percent of the money was in the wrong place. One military department found that the trades tended to balance without correction at year's end. That means the rigid controls and countless hours of checking and re-checking, auditing and re-auditing, inspecting and re-inspecting are unnecessary. The Department can move to a system that measures the effective use of money from a system which tracks whether the guesswork of three years ago was accurate [Ref. 8:pp. 11-12].

The most important result of the test is demonstrated by the following statement from the special report: "The test in each of the Services, though different, proved the assumptions were true: our commanders were better managers than the rules allowed them to be, and freeing them to manage better meant the nation could get more value for every defense dollar" [Ref. 8:p. 11].

The UBT strongly supports the basis for our thesis-that increased budget execution flexibility at the installation commander level will result in greater efficiency and economy for the DoD. It is unfortunate that this test was undertaken during a time when the drive for greater efficiency had not reached a high enough level to allow it to gain greater visibility and acceptance.

E. CONCLUSIONS ON FLEXIBILITY

This thesis does not advocate a total abrogation of control by Headquarters. On the contrary, it establishes the importance of flexibility in budget execution for installation commanders. Obviously, certain restrictions or parameters are a part of any senior/subordinate relationship, but there exists a limit beyond which a subordinate's ability to accomplish the mission efficiently is greatly impeded. With any organization, the key to good financial management is to create an operating structure that accomplishes the mission in the most effective and efficient manner. As higher authorities impose an increasing number of

restrictions upon subordinates, subordinate flexibility is reduced. Specific recommendations will be made in this thesis on methods for increasing flexibility.

In closing this chapter, one more thought from Carruth and McClendon captures the importance of budget flexibility and the central theme of this thesis:

> Administration of the budget should not be rigid. Changed conditions warrant changes in plans. Superiors should place the proper emphasis on budgetary activities to instill a cost-conscious, cooperative attitude toward budgetary control in supervisors. A skeptical supervisory attitude will filter down within the unit, and may undermine organizational efficiency. The budget must receive respect but it must not prevent a supervisor from taking prudent action [Ref. 4:p. 54].

III. CONGRESS AND THE BUDGET FLEXIBILITY DILEMMA

Chapter II established the importance of budget flexibility for installation commanders. Since this thesis will show that budget flexibility has been decreasing over time, it is useful to identify the forces that act to erode budget flexibility.

The discretionary, or flexible, portion of a commander's budget can be reduced from either the top or the bottom. Figure 3.1 shows the convergence of these two trends.

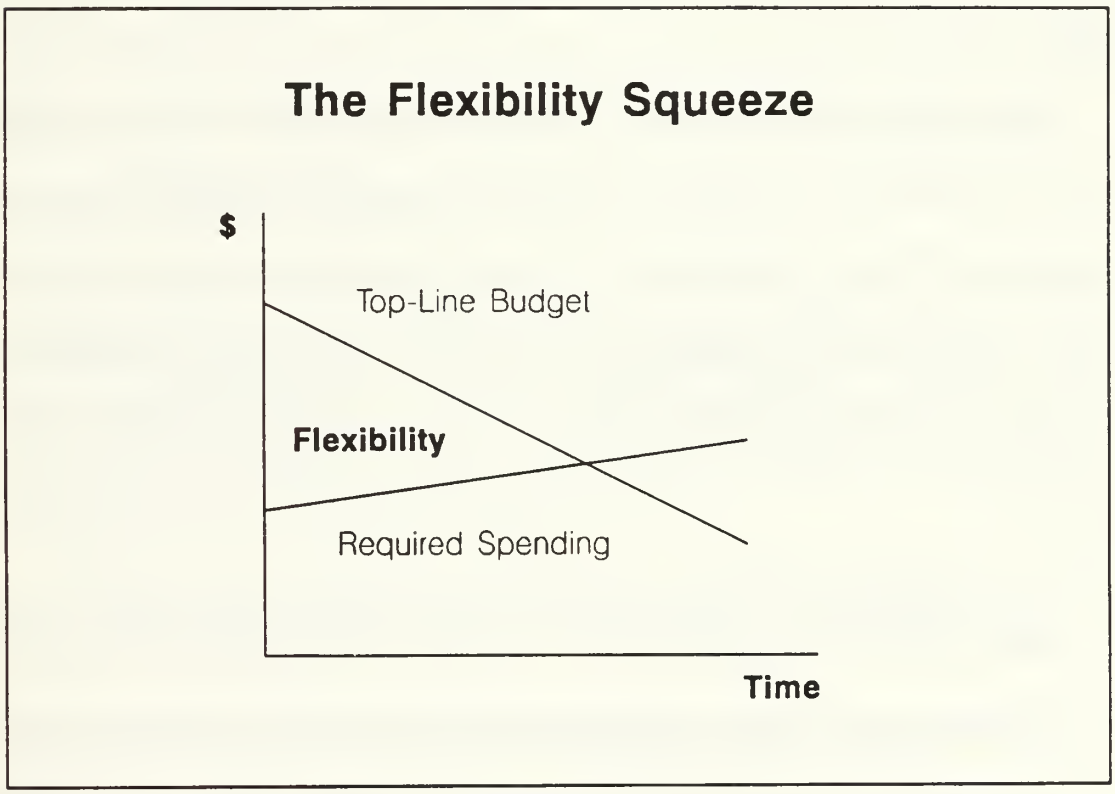

Figure 3.1

A declining budget squeezes flexibility from the top. On the other hand, increasing spending requirements, in the form of greater directed spending from higher authority and growing fixed costs, press up on flexibility from below. Top down decreases in flexibility, the result of diminishing budget resources, are the topic of the next chapter. This chapter will cover Congress's impact on flexibility reductions from the bottom, resulting from increasing appropriation and related spending requirements.

While there are many sources of spending requirements, including the fixed costs of base operations, Congress deserves particular attention. Congress earns the right to its own chapter because it can affect budget flexibility in so many ways.

This chapter will first explore congressional oversight of defense spending, giving a definition of and basis for oversight by Congress, followed by a historical presentation of how we have arrived at the current situation. Next will be an analysis of the impact of congressional activities on DoD. Finally, some additional thoughts concerning Congress and its effect on budget flexibility will be presented.

A. CONGRESSIONAL OVERSIGHT OF DOD: WHAT IS IT, AND WHY IS IT?

Congressional oversight is different things to different people. Some would say that Congress was exercising its oversight duties when it was rubber-stamping DoD budget requests in the 1950s. Others would maintain that Congress

can never keep too close an eye on the "fools, thieves and charlatans" in the Pentagon. Lindsay defines oversight as:

> those activities by which Congress seeks to determine whether the executive branch is acting in compliance with legislative intent and, where this is not the case, to bring the executive branch into compliance with that intent [Ref. 9:pp. 8-9].

Basically, oversight is maintaining a watchful eye on the activities of the executive branch to ensure that the power of the executive is used appropriately, in accordance with legislative mandates, and is not abused.

The historical basis for congressional oversight of national security matters is the Constitution of the United States. This document sets forth broad powers for Congress in the pursuit of the defense of our nation. Along with the powers identified below, comes the responsibility to ensure that the directions given are being carried out. This is oversight. Owens (1990) identifies the following powers granted to Congress in this area:

> the power to raise funds to 'provide for the common Defence'; to raise and support armies, and the militia when in federal service; to provide and maintain a navy; to make rules for the government and regulation of the land and naval forces; to 'exercise exclusive legislation... over all places purchased... for the erection of forts, magazines, arsenals, dockyards, and other needful buildings'; and to make all laws necessary and proper for carrying out the other powers [Ref. 10:p. 132].

Indeed, no one questions the right or responsibility of Congress to perform the duty of oversight. The question to be answered is, at what level should Congress focus to ensure compliance with its intent? Should it be concerned with budgetary minutiae, or with broad and farsighted policy concerns?

We could ask this same question of members of both the Continental Congress and today's Congress, and likely get similar answers. As Owens states, "The Founders envisioned a body dedicated primarily to deliberation—reasoned debate on issues of broad policy" [Ref. 10:p. 141]. The framers of the Constitution saw the need for long range vision and careful consideration of the impact of the actions of Congress.

Many of today's members have similar beliefs. Senator Sam Nunn, chairman of the Senate Armed Services Committee (SASC), testifying before the Temporary Select Committee to Study the Senate Committee System in August 1984, put it this way:

> The Armed Services Committee now authorizes almost every element of the defense budget each year, down to almost the last screw and bolt.... At its worst this tendency has spurred not unreasonable charges of congressional 'micromanagement'.... But even more troublesome, this trend to micromanagement has the staff and members focusing on the grains of sand on the beach while we should be looking over the broad ocean and beyond the horizon [Ref. 11:Part 2, p. 64].

It appears to be nearly unanimous among most Congress-watchers, and even within Congress, that we have reached a point at which the members of Congress bring electron microscopes to a task perhaps more adequately performed with telescopes. Some even question whether Congress is capable of performing the oversight for which the Constitution grants it the power [Ref. 9:p. 7].

This questioning of the capacity of Congress to perform a basic and vital function is not new, but it is exacerbated by the current climate of

micromanagement. The following quote from Lindsay (1990), often cited in the literature on the subject, gives insight into the views of many policy experts. "Congress," according to Lindsay, "is a *political* institution and not a bureaucratic one. Because it lacks the attributes of a bureaucracy, Congress's ability to review and revise DoD policies is limited; it is not capable of comprehensive oversight" [Ref. 9:p. 7].

If Congress is not capable of comprehensive oversight of DoD, how then can it afford to spend so much time "focusing on the grains of sand?" Certainly Congress is required to ensure that DoD does not overspend its budget. Congress also has a responsibility to the taxpayer to monitor the efficiency with which DoD spends its funds. But, it is the effort by Congress to gain greater control over the defense budget which frequently undermines DoD efficiency. Is further micromanagement the answer? Perhaps a better question to be asked is: how did we arrive at our current situation of micromanagement?

B. THE GRADUAL PATH TO MICROMANAGEMENT: STAGE I

As alluded to earlier, there have been periods in the past in which Congress exercised much less restrictive control over DoD and its budget. In discussing the power of the defense committees during the 1950s and 1960s, Lindsay states that "None of the defense committees made extensive changes to DoD budget requests in the 1960s. In general, members of these committees saw their task as the military's advocate on Capitol Hill" [Ref. 12:p. 378].

The first indication of a change in the wind was the passage of the Russell amendment in 1959. Prior to this piece of legislation, the House and Senate Armed Services Committees (HASC and SASC) provided lump-sum authorizations for most DoD programs. It was the Defense Appropriations Subcommittees which had the power to control the purse strings, due to their ability to make adjustments to the defense budget at the line-item level.

The Russell amendment was the first of many steps toward giving the Armed Services Committees greater power vis-a-vis the Defense Appropriations Subcommittees. According to Lindsay, the amendment "stipulated that after 1960 all appropriations for the procurement of aircraft, missiles, and naval vessels had to be preceded by specific annual authorizations" [Ref. 12:p. 375]. This power of annual authorization has gradually been extended to all aspects of the defense budget, until we have reached the point where the efforts of the Armed Services committees and the Defense Appropriations subcommittees are almost completely duplicative of each other, and of executive branch efforts as well. According to Ippolito (1990), "Congress now duplicates much of the president's work. Lacking the centralization and hierarchy of the executive branch, however, Congress often finds it difficult to make clear-cut and binding decisions" [Ref. 13:p. 115].

This duplication of effort would not, in and of itself, necessarily be a problem for the DoD. As Ippolito intimates though, the problem arises in that the two sets of committees frequently contradict each other: funds which are

authorized are not always appropriated, and funds which are appropriated are not always authorized. In addition, this duplication of effort has resulted in defense budgets which are now consistently passed well after the beginning of the fiscal year. All these effects combine to tie up funds DoD needs to execute its budget efficiently.

The power struggle between the Armed Services Committees and the Defense Appropriations Subcommittees has developed over a period of 30 years, and contributes strongly to the climate of micromanagement which exists today. It is not the only force that has been active in the congressional defense arena. It was, however, the first of many forces to manifest itself in our recent budgetary history.

C. THE GRADUAL PATH TO MICROMANAGEMENT: STAGE II

While there was significant competition brewing among the defense committees during the early 1960s, the consensus among the rest of Congress was that these committees, and especially their chairmen, were the experts on defense matters. Not only were defense bills rarely challenged on the floor of either chamber, but DoD itself was held in a position of trust and respect. Vietnam effected a drastic change on this somewhat idyllic environment from the DoD perspective.

As Ippolito points out, "the convergence of negative perceptions about Vietnam, about military waste and mismanagement, and about the leadership and

competence of the armed services meant that the military's budget was no longer privileged" [Ref. 13:p. 118]. In a very brief period of time, DoD lost nearly all the trust that it had possessed on the Hill, and the battle to regain that trust is still being waged.

The armed services were not the only ones to face the diminished trust and respect of Congress and the American people. The once mighty chairmen of congressional committees were being challenged by young, independent-minded junior members, who began to question authority within the halls of Congress. Likewise, the defense committees themselves began to be questioned as to their expertise. As Lindsay (1987) states, "To retain credibility in their parent chambers, the Armed Services committees (and the Defense Appropriations subcommittees as well) had to establish that they did not simply rubber-stamp DoD requests" [Ref. 12:p. 381]. Combining this loss of a sense of advocacy among the defense committees with the general loss of trust in DoD resulted in increasing attacks on the defense budget from the floors of both chambers.

These attacks originate not only from individual members of Congress, but also from increasing numbers of committees and subcommittees which have experienced profound growth in their influence over defense matters. Congressional committees have become increasingly active throughout the last two decades. Many committees with no apparent direct connection to defense have determined that they do, indeed, have jurisdiction over some aspect of the

defense budget. As Secretary Cheney stated in his *White Paper on the Department of Defense and the Congress* (1990), "In 1988, 14 full committees and 43 subcommittees or panels held hearings concerning DoD. Some 30 committees and 77 subcommittees claim some degree of oversight responsibility for DoD" [Ref. 14:p. 15]. This tremendous growth in committee involvement with the DoD budget has reinforced the trend toward micromanagement.

Add to the growth of the committees and the independence of members at large the increasing politicization of the defense budget, and micromanagement has begun to mushroom uncontrollably. Defense spending is seen as a political symbol of liberal versus conservative. Hardliners on both sides can use their stands on defense issues as tangible evidence of their dedication to ideological principles. As Ippolito asserts:

> The political symbolism of defense spending and domestic budget priorities had made budget resolutions convenient targets for ideological battles since the mid-1970s. Because defense was the only major authorization coming up each year in Congress, it provided a splendid opportunity for numerous members to press their views on weapons systems, procurement reforms, arms control, and foreign policy. With the defense appropriations bill comprising the bulk of controllable spending in each year's budget, incentives were multiplied for fighting over relatively small amounts [Ref. 13:p. 146].

The politicization of the defense budget, combined with the concreteness of ships, planes, missiles and tanks, has created the ideal platform upon which members of Congress can use a thirty-second sound bite to reach thousands of voters. Few other areas of the federal budget are capable of garnering the publicity that opposition to the defense budget provides.

D. FORMS OF MICROMANAGEMENT

1. Direct Intervention

Lindsay (1987) provides some startling figures which clearly demonstrate the growth of micromanagement in the defense budget process due to increased committee and floor involvement:

> In 1969, Congress made 180 changes to the defense authorization bill and 650 to the appropriations bill. In 1975 these figures were 222 and 1,032, respectively. In 1985, however, Congress made 1,145 adjustments in the authorization bill and 2,156 in the appropriations bill (representing more than a sixfold and a threefold increase, respectively, in changes to the defense authorization and appropriation bills). There has been a similar jump in congressional directions to DoD. In 1969 Congress requested 36 reports from the Pentagon, directed 18 other actions, and changed 64 provisions in the law. By comparison, in 1985 Congress requested 676 reports (an increase of 1,778%), mandated 184 other directions (992%), and made 227 changes in the law (255%) [Ref. 12:pp. 373-4].

The net result of all this activity is a growing preoccupation with minute budget details on the part of Congress, and a resultant inability of DoD to plan and execute its budget in an efficient manner.

2. Political Pork

In addition to the problems caused by micromanagement, the DoD budget is especially prone to inefficiencies which are imposed upon it by Congress through enactment of "pork barrel" legislation. Because defense spending has become so political, and makes up such a large portion of controllable spending, this facet of the legislative process has actually become an incentive for greater micromanagement. Important votes are frequently bought

and sold by parcelling out defense funds to specific states and congressional districts. Since many of the items funded were not requested by DoD (indeed, some have very little to do with defense in the first place), this forced expenditure of limited funds may benefit certain members of Congress, but is likely to result in decreased flexibility and efficiency in the execution of DoD budgets.

Having examined the growth of micromanagement within the defense budget process, the effects which Congress and its activities can have upon budget flexibility of installation commanders may now be considered.

E. DIRECT CONGRESSIONAL IMPACT ON DEFENSE BUDGET FLEXIBILITY

The most obvious sources of congressional impact on the DoD budget and execution flexibility are the line-item changes to the budget itself, and congressional directions to DoD. The sheer magnitude of these activities, as outlined above, can impact DoD in many different ways. The largest impact is the tremendous uncertainty that congressional activity injects in both the budget planning and budget execution processes.

The fact that any item submitted in the budget request is increasingly likely to be altered or completely eliminated, greatly reduces the effectiveness of input from the installation commander level. As asserted earlier, the installation commander is in an ideal position to determine the most efficient spending practices for any given installation. Without an accurate assessment of the

probable impact at the lowest levels, congressional direction and line-item control are not likely to result in efficient allocation of resources.

Flexibility is further reduced through earmarking of funds for specific purposes. Rather than identifying project priorities and allowing the local commander the authority to determine an efficient distribution of funds to accomplish the mission, Congress frequently earmarks funds for specific uses, and the money can only be spent in those areas. As Secretary Cheney states, "Many earmarks direct money to specific recipients, either by name or by virtue of conditions on the funding—in some cases with little direct relation to genuine defense needs. In other cases, earmarks represent mandates to spend funds on what are clearly low-priority items" [Ref. 14:p. 14].

In addition to earmarking, Secretary Cheney identifies another area in which Congress has a profound impact on budget flexibility. "Another frequent practice is the establishment of personnel, or workload, floors or requiring the continuance of specific functions at various installations. There are about a dozen such requirements in the 1989 defense bills with even more extensive requirements in permanent law" [Ref. 14:p. 14]. By imposing spending floors on local commanders, Congress is legislating inefficiency in those cases in which the local commander could comply with congressional intent while spending less than the floor.

The direct impact of Congress on defense budget flexibility is certainly significant, but there is also tremendous indirect impact.

F. INDIRECT CONGRESSIONAL IMPACT ON DEFENSE BUDGET FLEXIBILITY

Another potential burden on defense has been the increasing regulation of federal agencies by other federal agencies or even states. This regulation results from non-defense federal and state legislation which is increasingly impacting DoD. According to Secretary Cheney:

> This can impose costs or force changes in Department activities without regard to the overall defense picture. For example, the House Armed Services Committee 1990 authorization report says that compliance with environmental legislation will cost DoD $5-$10 over the next five years. 'Unless extraordinary measures are taken to increase defense expenditures, provide for large transfers of funding within DoD appropriations or constrain environmental funding requirements, defense readiness and quality of life programs will have to be sacrificed,'... [Ref. 14:p. 16].

The environmental laws which so strongly affect the defense budget were passed without any direct input from the defense committees.

Unfortunately, the environment is not the only spending area in which laws are passed which have a direct and powerful impact on DoD, but on which there was no consultation with the defense committees. As Secretary Cheney states:

> As the largest civilian employer in the government, DoD's performance is strongly affected by compensation and ethics laws, but the defense authorizing committees are not usually given an opportunity to take DoD's particular needs into account while legislation in these areas is being crafted [Ref. 14:p. 17].

Most defense environmental spending and all defense civilian pay are funded through the Operation and Maintenance Appropriation (O&M), which is

the focus of this thesis. But non-defense legislation that impacts DoD is not the only source of indirect congressional impact on budget flexibility within O&M. O&M is particularly susceptible to what we call the "trickle-down" effect of congressional micromanagement.

Congress impacts budget flexibility within DoD even when it does not direct specific uses for O&M funds. In an interview with an official source in the budget execution branch of the office of the Fiscal Director of the Marine Corps, it was learned that many restrictions placed on O&M funds at the DoD and HQMC levels are imposed in order to avoid congressional attention.

The Marine Corps alone currently uses 31 centrally managed funds, only a few of which are mandated by Congress. Although these centrally managed funds reduce flexibility at the installation level, they are viewed as necessary for two reasons: 1) they demonstrate to Congress an effort to keep spending under tight control, thereby reducing the chance that Congress will feel "obliged" to take control into its own hands; and 2) they allow HQMC quicker response time to numerous congressional requests for information and action. If HQMC centrally manages funds for any given project, it can provide a more rapid response to congressional inquiries than if it had to gather up the information from separate commands. Rapid and accurate responses could preclude Congress from conducting its own, potentially disruptive, fact-finding effort.

While the "trickle-down" effect is not as easily documented as direct congressional action, its pervasiveness makes it one of the largest sources of restriction on budget execution. Since much of this restriction may be a response to the perceived threat of congressional intervention, or an attempt to preempt that intervention, it can be indirectly attributed to the level of micromanagement within the Congress.

This perceived threat is fostered through unofficial correspondence and verbal instructions from members and staff of Congress to agents of the DoD. As Secretary Cheney describes, although DoD "is not required to comply with these forms of guidance as a legal matter, the consequences of ignoring such advice frequently compel compliance—this year's ignored 'suggestion' may become next year's statutory requirement" [Ref. 14:p. 12].

G. TARGET: O&M

1. The Black Hole

Until recently, O&M escaped much of the budget scrutiny that has been focused on the rest of the defense budget. This is because it was viewed as being directly related to readiness. Also, because it is made up of so many disparate line items, it is difficult for Congress to understand. Morrison (1992) clearly identifies the diversity present within the account:

> O&M pays for training, exercises, spare parts and the maintenance and repair of property and hardware. It also supports the transport of military people and their goods around the globe, not to mention health care and recruiting and the gamut of administrative expenses. O&M also encompasses military bands, chaplains and recreation. Oh, yes, don't forget treaty verification, environmental restoration, unemployment compensation and billions of dollars in classified intelligence activities [Ref. 15:p. 1823].

In the last several years, however, O&M has lost much of the protection it once enjoyed. Congressman Les Aspin, Chairman of the House Armed Services Committee, has led a personal crusade against this appropriation account. According to Congressman Aspin, as quoted by Morrison, "it is 'a myth' that O&M spending translates directly into readiness....O&M spending, Aspin concluded, 'is the biggest black hole of all in defense'" [Ref. 15:p. 1822].

2. Instant Returns

O&M is now looked at more closely because of its diversity, and because of its nature as a fast-spending account (budget authority is usually outlayed in the appropriation year). It is now increasingly looked upon as a cash cow. When Congress seeks defense outlays to be used for special defense programs or non-defense purposes, the O&M budget is an attractive target.

This outlook is to the detriment of installation commanders throughout DoD, because O&M makes up the vast majority of the funds necessary for base operations. O&M is also the only real source of flexibility within an installation commander's budget. All other appropriations are so heavily controlled that a commander has virtually no decision authority over their use. With increasing

congressional control over O&M, the last bastion of budget flexibility is under fire.

3. O-1

Not surprising then, an effort by Congress is now underway to extend its control over the budgeting and execution of O&M funding. In the FY 1992 Defense Appropriations Conference Report, Congress calls for the following:

> To improve the information available on the execution and budgeting of operation and maintenance (O&M) appropriations, Section 8034 requires the Department to submit an 'O-1' as part of its justification materials supporting the fiscal year 1993 O&M request. The conferees agree that the O-1 shall be treated as the base for reprogramming actions and execution of O&M funds, as the P-1 and R-1 are for procurement and RDT&E, respectively [Ref. 16:p. 50].

There are two significant aspects to this new requirement.

First, it establishes that the budget justification material for O&M will be in the same detailed, line-item format as are the P-1 and R-1. The procurement and RDT&E accounts are among the most extensively fenced and controlled appropriations. Congress appropriates in these two areas at the line item level, and the funding is typically difficult to adjust between line items. Given the diverse nature of the O&M appropriation, building a line-item budget for O&M will involve massive efforts on the part of DoD, will serve to further bog down the defense appropriations progress, and will invite even tighter control of budget execution by the Congress.

This is the second important issue raised by the O-1, that the wording in the FY 1992 bill significantly ties execution to the O-1 justification by making it the "base" for execution. In most cases, execution should resemble the proposed budget. But, as demonstrated by the Unified Budget Test described earlier, the requirements that emerge at the installation level between the time budgets are formulated and executed, can be quite unforeseeable.

The FY 1993 House Defense Appropriations Conference Report states "The conferees do not seek to impede the orderly management of O&M programs at the base, installation or major command level" [Ref. 17:p. 52]. But, the establishment of O-1 can have no other effect. Even though funds can be switched between O-1 categories during FY 1993, and Congress has stated that it does not wish to impede DoD budget flexibility, the "trickle-down" effect may generate increased restrictions throughout the DoD budget hierarchy. The attempt by Congress to appropriate funds in an ever-tightening grip on execution will result in substantially increased workloads for budget formulators, and vastly diminished execution flexibility for the installation commanders. As noted, these commanders are in need of greater flexibility, not increased control at the highest level.

H. CONCLUSIONS ON CONGRESS AND FLEXIBILITY

The premise of this thesis is that budget execution flexibility at the installation commander level is more likely to lead to an efficient allocation of resources than is control of funds at higher levels. Congress, in choosing to exercise its oversight duties by micromanaging the defense budget down to the line-item level, often in the name of promoting efficiency, is instead stifling efficiency by taking away flexibility and by causing confusion in the defense budget process.

According to Secretary Cheney, due to consistently late passage of defense appropriations well into the fiscal year, and to budget differences between the authorizing and appropriating committees, Congress places "DoD in a difficult position, one which can be detrimental to an effective national defense policy, but which cannot be solved by the Department" [Ref. 14:p. 22]. He further states that "Inability to settle such disputes can delay needed modernization, waste resources and divert the attention of policy makers from other critical issues" [Ref. 14:p. 22]. It is likely that adoption of the O-1 will hinder rather than help efforts to provide more consistency in the process.

The direct effects of Congress may be illustrated by examining the fiscal year (FY) 1992 defense authorization and appropriations bills, specifically the portions affecting the O&MMC account. In the House version of the authorization bill,

there were three line-item changes made to the President's budget. The Senate indicated ten changes, and the conference resulted in nine line-item changes.

In terms of dollars, the President requested $1,894.6 million. The HASC proposed $1,786.3 million, the SASC proposed $2,170.3 million, and the conference adopted a figure of $1,845.5 million.

The House and Senate Appropriations Committees (HAC and SAC) were even more active. The HAC indicated seven line-item changes, the SAC thirteen, and the Conference adopted twelve. In dollars, the HAC recommended $2,082.5 million, the SAC recommended $2,109.7 million, and amazingly, the conference arrived at a figure of $1,892.1 million. Even after trimming several million dollars from the individual recommendations of each chamber, the Conference still appropriated $46.6 million more than was authorized. [Ref. 18]

The importance of these figures lies not in the fact that the overall dollar amounts were changed only slightly. These figures show that even in a relatively small account such as O&MMC, congressional intervention can be substantial.

The figures above identify only a portion of the impact of Congress on budget flexibility. As outlined in the section on impact, there are many statutes enacted every year that have a lasting effect on DoD operations, but are not contained in either the defense authorization or appropriations bills. Many of these statutes, for example those dealing with the environment and civilian pay,

have the effect of increasing the fixed costs of base operations. This increase in fixed costs directly reduces flexibility in budget execution.

Also not included in the direct intervention figures is the serious issue of the "trickle-down" effect. Congress could refrain from making a single line-item change to the budget, and the current climate is such that senior managers in the DoD and Marine Corps would still feel the necessity to maintain centralized control of funds. This restriction on funding at the installation commander level is performed in the name of retaining flexibility by discouraging direct congressional intervention. The net effect is exactly the opposite.

The installation commanders are under fire to become more efficient in their budget execution. At the same time, flexibility, a key tool in efficient budget execution, is being dramatically reduced. While Congress and the defense hierarchy compress the commander's flexibility from below by mandating expenditures and fencing off access to large portions of O&M funds (see Figure 3.1), there is another force acting to reduce flexibility from above.

The next chapter will analyze the inescapable phenomenon of forced reduction in the overall defense budget, and the impact this will have on the O&M account and, consequently, on budget flexibility.

IV. THE DECLINING DEFENSE BUDGET

In the previous chapter, we examined congressional oversight and, in turn, how this oversight impacts the flexibility of installation commanders. We provided an overview of the development of the oversight process into a microscopic dissection of the entire defense budget. As presented earlier, contemporary congressional oversight represents a compression, from the bottom up, of a commander's budget flexibility (Figure 3.1).

In contrast, this chapter presents a source of decreased budget flexibility at the installation level from the top down—reduced total appropriations for the DoD. This presentation includes a discussion of the current defense budget climate; a historical review of the DoD budget—its size relative to other federal budget components and to the United States (US) economy as measured by the Gross Domestic Product (GDP); and a discussion of some of the reasons the defense budget faces further cuts.

Budget data presented in this section will consist mainly of outlays and budget authority amounts obtained from the Office of Management and Budget's (OMB) and the Congressional Budget Office's (CBO) Historical Tables for subfunction 051 (Department of Defense—Military) of the function 050 (National Defense). We will cite data for the period 1950-1990 utilizing the format provided

by Dennis S. Ippolito in *Defense Budgets and Spending Control*, and utilize OMB estimates for the period 1993-1997.

The defense budget represents just one subset of the overall federal budget. However, its status as the largest controllable spending account legislated annually and scrutinized by Congress, has made it the predominant focus of the congressional budget process in recent years. "The size of the defense budget impacts on the economy, international negotiations, and the federal government's ability to achieve other national objectives" [Ref. 19:p. 2].

A. THE DEFENSE BUDGET CLIMATE AND BUDGET FLEXIBILITY

The defense budget climate is integral to the argument of our thesis for two major reasons. First, if the overall defense appropriation is decreased, budget allocations, including Operations and Maintenance (O&M) dollars to specific installations will *ceteris paribus*, also be decreased, thus reducing a commander's discretionary dollars. Although there is support in both Congress and the Executive for maintaining a high degree of readiness (primarily O&M funded), the force structure reduction of 25 percent, presently underway, has already contained O&M reductions.

In fact, the FY 1993 O&M appropriation was 1.8 billion dollars less than the FY 1992 amount [Ref. 20:Part Two, p. 3], it was another six billion dollars below the amount requested by President Bush [Ref. 21:p. 3260]. According to Towell, "for the first time in this era of defense cuts, Congress made significant reductions

in the O&M request. The most notable single initiative...was a three billion dollar reduction linked to a variety of changes in the way the Pentagon manages its spare parts and supplies" [Ref. 21:p. 3260]. Moreover, the services' O&M budget requests were immediately reduced by one billion dollars each, apparently to motivate the services to pare supply warehouses of excess items [Ref. 21:p. 3260].

Second, if Congress and the American public are dissatisfied with DoD's financial management, additional restrictions may be placed on defense appropriations, further reducing budget execution flexibility at the local level. As a case in point, the aforementioned one billion dollar cut of the services' O&M budget requests was tied to an incentive in which the dollar value of eliminated excess supplies would be credited to the respective service's operating account [Ref. 22:p. 2957].

This conditional appropriation manifests two points: 1) Congress believes it can, and must, legislate efficiency for the DoD, and 2) "the largest slice of the defense budget pie" [Ref. 15:p. 1822], i.e., the sizeable O&M budget, within an overall smaller defense pie, is increasingly susceptible to micromanagement and reduction. We postulate that if congressional oversight continues at its past growth rate, or even remains constant within a declining DoD budget, the discretionary portion of a commander's O&M budget—the commander's budget flexibility—will continue to shrink. Since we maintain that the commander is in the best position to make resource allocation decisions (Chapter II), increased oversight will aggravate the problem of inefficient allocation of DoD financial resources.

B. THE WINDS OF CHANGE

The decades of the nineteen eighty's and nineties have brought several developments of global, almost biblical, proportion—the end of the Cold War, the falling of the Berlin Wall, the continued slow down of the American economy, the escalation of the U.S. federal deficit and national debt, and Desert Shield/Desert Storm. These events have synergistically combined to alter the current defense budget climate.

C. THE FY 93 DEFENSE BUDGET

In the FY 1993 federal budget submission, President Bush requested $267.6 in Budget Authority (BA) and $272.8 billion in outlays for the DoD-Military (051) function [Ref. 20:Part One, p. 241]. This equates to a real decline in BA of seven percent below the FY 1992 budget enacted by Congress, excluding Desert Shield/Desert Storm costs [Ref. 23:p. 40].

Figure 4.1, the Secretary of Defense's famous "pitchfork" chart, depicts the DoD's BA levels between FY's 1985 and 1997. These levels represent cumulative real declines in defense spending of 29 percent for the period 1985-1993 and 37 percent for the period 1985-1997. Markedly, the FY 1993 budget was formulated and submitted in perhaps the most complex of national security environments.

President Bush's budget included plans to reduce the active-duty force to a "base force," which was based upon a new military strategy. This strategy focused on regional threats, maintaining a forward presence, and rapid response

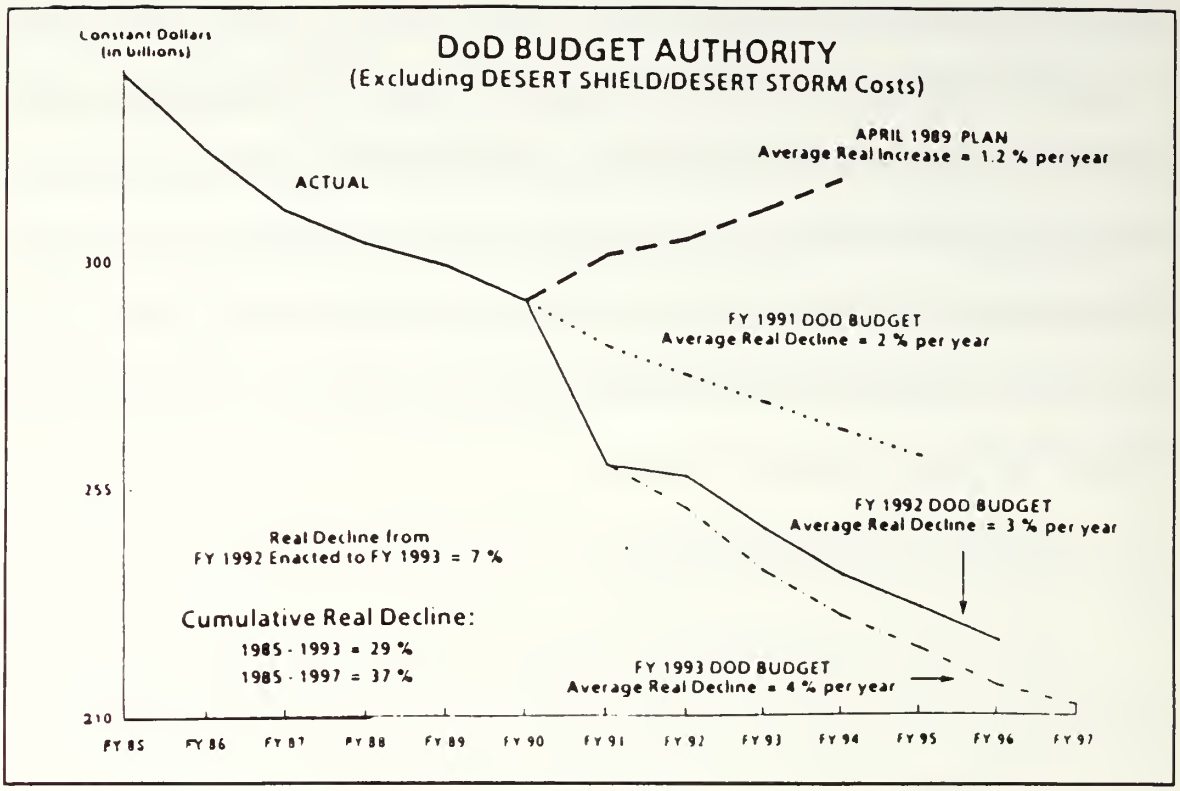

Figure 4.1
Source: Secretary of Defense, 1992

to crisis situations. The new strategy and the projected environment for its implementation have brought about significant reductions in the defense budget. The President's FY 1993 budget submission stated:

> Because of the reduced threat of a major war, substantial savings are possible. Active duty, selected reserve, and civilian personnel levels are being reduced, and several major weapons programs are being terminated [Ref. 20:Part One, p. 240].

The Bush budget submission also states, "Active forces will be maintained at current high readiness levels and equipped with modern equipment to be able to respond appropriately to continuing threats" [Ref. 20:Part One, p. 240].

Although a general consensus on threat assessment and the appropriate defense posture seems to exist, several divergent defense budgets have been proposed. For example, the proposal by President-elect Clinton, if adopted, will cut an additional $58.5 billion from the Bush plan in five years [Ref. 24:p. 3254]. The Panetta defense plan includes cuts of $166 billion over six years, and the Center for Strategic and International Studies (CSIS) recommends defense cuts of $290 billion over ten years [Ref. 24:p. 3255].

The only sure thing regarding the immediate future for defense is that cuts will continue to be imposed—where and how much remain in question.

D. HISTORICAL OVERVIEW OF THE DEFENSE BUDGET

This section presents an overview of the DoD budget since 1950. This overview will provide a perspective from which to evaluate the current budget climate and assess its impact upon budget flexibility.

With few exceptions, defense budget outlays have increased from year to year in current dollars, but in constant dollars, spending has fluctuated dramatically with three peaks—Korea, Vietnam, and the Carter-Reagan buildup. Figure 4.2 illustrates this relationship between current and constant defense dollars. Despite the fluctuation in constant dollars, the unmistakable trend for defense spending since the Korean Conflict been downward.

In 1950, defense (051) current dollar outlays totaled $13.724 million, constituting 32.2 percent of total federal outlays and 5.2 percent of GDP

[Ref. 25:Part Five, p. 83]. Over four decades later, the DoD Comptroller estimates 1993 defense (051) current dollar outlays at $291.353 billion—19.2 percent of total federal outlays and 4.7 percent of GDP [Ref. 26:pp. 125,139]. Because the actual appropriation for FY 1993 was $37 billion less than this estimate, [Ref. 27:p. 3260], actual outlays for FY 1993 will be much lower than at any time in the recent past.

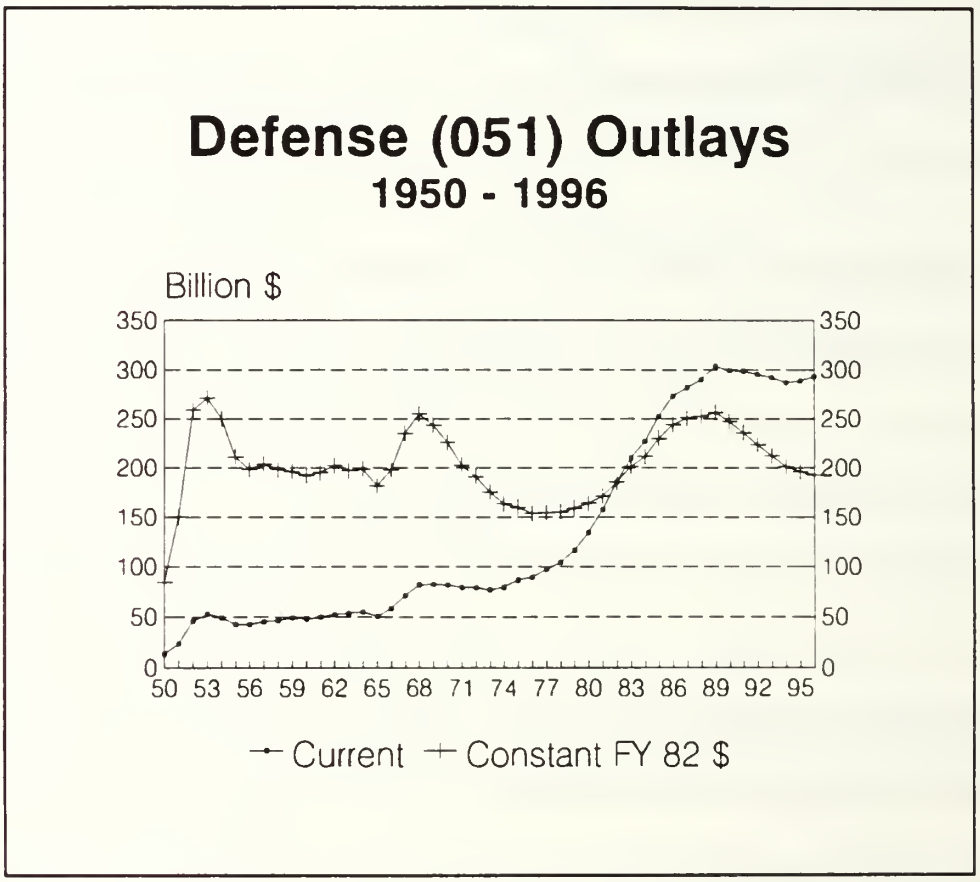

Figure 4.2
Source: OMB Historical Tables, 1992

Certainly, the defense budget climate is in a state of flux. What follows is a brief examination of the decades between the fifties and the nineties, segmented

to align with the administrations of the presidents who have shaped these budgets.

E. THE KENNEDY/JOHNSON ADMINISTRATION

In 1962, defense outlays equaled $52.345 million, 49 percent of total federal outlays and 9.4 percent of GDP [Ref. 25:Part Five, p. 84]. In 1965, defense outlays were cut by over seven percent from the 1964 level [Ref. 28:p. 117]. Then came a rise in defense funding due to the Vietnam War. Between 1965 and 1969, defense budget outlays increased by more than $31 billion, peaking at $82.5 billion in 1969 dollars [Ref. 27:Part Five, p. 85].

Constant dollar defense outlays peaked at $254.8 billion (FY 82 dollars) in 1968 [Ref. 25:p. 68]. As mentioned in the previous chapter, negative perceptions toward DoD regarding the war and mismanagement of resources brought about a change in funding for defense.

F. THE NIXON/FORD ADMINISTRATION

The change in defense funding stemmed from congressional interest in cutting defense and increasing social spending, and lasted into the mid 1970s. During the period FY69-FY76 current dollar defense outlays rose from $82.5 billion (almost 45 percent of total federal outlays) to $89.6 billion (less than 25 percent of total federal outlays) while overall federal spending almost doubled [Ref. 13:p. 119]. In 1976, defense totaled $153.6 billion in terms of real spending (FY 1982 dollars) and 5.3 percent as a share of the GDP—the lowest level since

1950 [Ref. 27:p. 69]. Figure 4.3 presents defense outlays as a percentage of GDP and of total federal outlays.

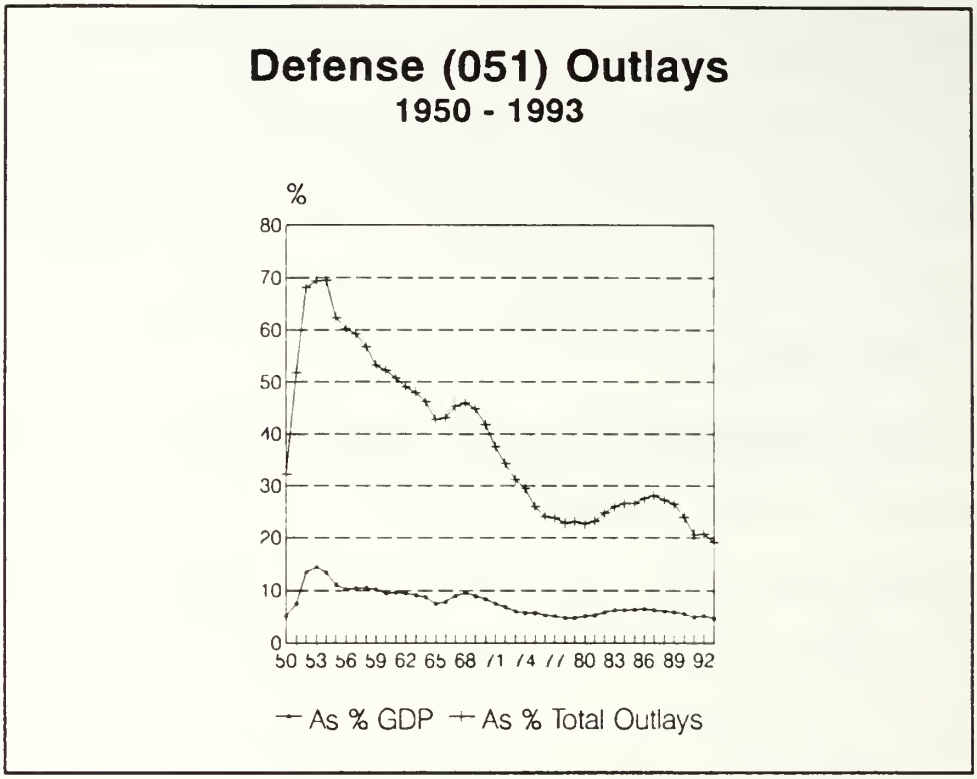

Figure 4.3
Source: DOD Comptroller, 1992

The period 1970-1975 was highlighted by significant defense budget conflict between the Executive and the Congress. Defense appropriation bills passed by Congress averaged nearly $4 billion per year below the Administration's request [Ref. 13:p. 120]. Congressional actions led to program delays or stretch-outs vice terminations. High costs of these stretch-outs and of an all-volunteer force altered the shape of the defense budget. "During the period FY 69-76, outlays for manpower rose by more than 20 percent while procurement and research, development, testing and evaluation dropped by about one-fifth" [Ref. 13:p. 120].

The Nixon administration responded to congressional distrust by tightening procurement and support activities, and by expanding the capabilities of existing forces [Ref. 13:p. 120]. The Administration seemed to have been on the right track to improve relations between Congress and the Administration regarding the defense budget.

However, this progress was completely reversed by President Nixon's fiscal impoundments and by the Watergate scandal. Congress utilized these events as leverage to increase congressional control over the defense budget and passed the 1974 Congressional Budget and Impoundment Control Act. This Act once again altered the defense budget process as it placed defense in direct competition with politically popular and less easily controlled domestic programs. In short, the Nixon years provided the catalyst for increased congressional oversight.

President Ford prepared the first budget under the Congressional Budget Act of 1974 and tried, to little avail, to increase defense funding. However, increased Soviet threat perception altered this trend.

G. THE CARTER ADMINISTRATION

During the 1970s, the Senate Armed Services Committee, the Congressional Research Service, and the Central Intelligence Agency published reports documenting a substantial military advantage for the Soviet Union. These reports greatly increased public concern for US military preparedness and the US/Soviet military imbalance [Ref. 13:p. 126]. This concern resulted in increased defense

dollars in the last years of the Carter administration and then in the Reagan buildup.

Real defense spending rose each year under Carter, but at a rate of increase slower than that of non-defense spending. Average real spending for defense was nearly $195 billion annually for the period FY 1960-1965, while the average for FY 1977-1981 was almost 20 percent lower. Meanwhile, the FY 1981 peak was still below pre-Vietnam levels [Ref. 13:p. 132-133]. Although Carter may be credited with a part in reversing the downward trend in defense appropriations, the budgetary policy of his Presidency was dominated by demands to support domestic programs.

H. THE REAGAN/BUSH ADMINISTRATIONS

During the Reagan years, defense spending reached unprecedented peacetime levels. Outlays during the 1984-1989 period ranged from $227 billion to $300 billion, in current dollars, peaking at 28 percent of the total budget in FY 1987. Also, from FY 1982-1989 defense hovered near six percent of GDP [Ref. 27:Part Five, p. 87]. For the period FY 1981-1985, outlay growth exceeded 90 percent. "Real defense spending under Reagan was roughly equal to peak levels during the Korean and Vietnam wars" [Ref. 13:p. 135].

As a result of the investments and expenditures during this period, in 1987 according to DoD, the US/Soviet military disparity was eliminated. The Reagan years are encapsulated in the following quote: "The goal of the Reagan program

was to boost spending quickly in all defense budget areas and to incorporate high rates of growth in investment budget authority that would drive the budget in future years" [Ref. 13:p. 138].

As indicated by the previous discussion of the current defense budget climate, the Bush presidency essentially aimed to continue the Reagan policy and philosophy as stated above, but the global events mentioned earlier resulted in drastic changes to the administration's defense budgets, as indicated in Figure 4.1. While substantially reducing the dollars available for defense, these changes purportedly retain a commitment to a strong, capable defense.

I. THE FUTURE OF DEFENSE

The current estimate in the 1993 Historical Tables for defense outlays for 1997 is $289.3 billion or 17.2 percent of total federal outlays and 3.6 percent of GDP [Ref. 25:Part Five, p. 88]. While the dollar value associated with these percentages is high, taken within a historical perspective of defense spending, they represent the lowest levels for defense as both a percentage of total federal outlays and of GDP since 1948 (Figure 4.3).

Figure 4.4 depicts the relationship between defense outlays and total federal outlays in current dollars. Obviously, defense outlays have not risen at the same pace as total federal outlays over the last forty years.

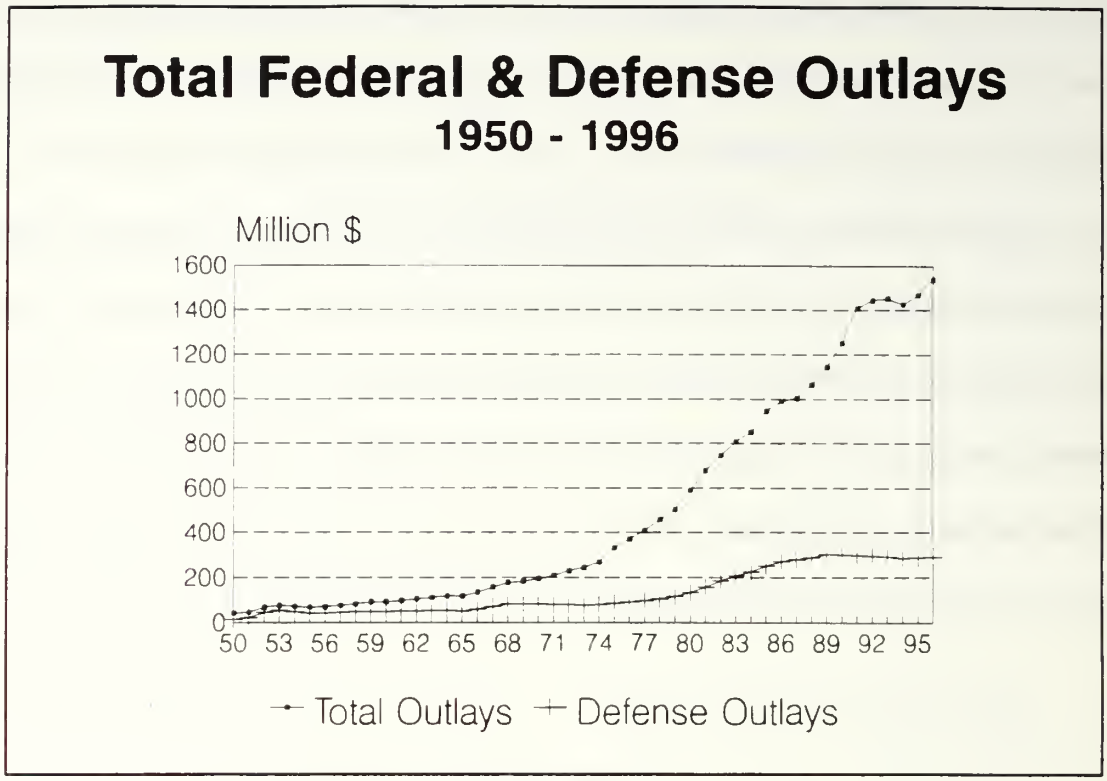

Figure 4.4
Source: OMB Historical Tables, 1992

From this historical tableau, defense spending does not seem to be inordinately excessive. Yet a massive American military drawdown is underway. There must be a significant basis for a reversal of such an enormous magnitude. The next section examines the current defense cutting rationale.

J. THE DEATH OF THE SOVIET UNION AND BIRTH OF THE PEACE DIVIDEND

First among the reasons for the defense builddown is the disappearance of the threat from the Soviet Union and the end of the Cold War. This apparent end

to Soviet communism has created a belief in the need for an illusive peace dividend. Initially, the conventional wisdom held that the downsizing of the American military would produce dollars for immediate use in non-defense areas. This belief in the peace dividend led to massive efforts to eliminate large portions of the US military, i.e., base closings, personnel cutbacks, consolidations of services, and large reductions in the purchase and development of weapons systems.

No doubt, the end of the Soviet threat necessitated a review of defense policy and planning, and may even warrant the monumental defense reductions proposed by some; however, the immediate availability of actual peace dividend dollars is debatable in part due to the size of the annual budget deficit.

1. Foreign Aid

One consumer of potential peace dividend dollars is the amount of financial aid diverted to assist the former Soviet Union in its transition to democracy. In the FY 1993 National Defense Authorization Bill Conference Report, the House and Senate conferees authorized $800 million for the demilitarization of the Soviet Union—$150 million higher as a result of a proposal by Senator Lugar, R-Indiana [Ref. 28:p. 2959]. The authorization is also higher as a result of Senator Nunn's proposal to increase Soviet Aid by $400 million [Ref. 22:p. 2954].

K. BASE REALIGNMENTS AND CLOSURES MEET THE PEACE DIVIDEND

The peace dividend is rooted in the belief that trimming defense by cutting and closing bases will result in a net savings of defense dollars that can be redirected into non-defense financial requirements. This net savings represents an amount remaining after the cutting and closing bills have been paid. Between 1992-1997, estimated costs to close 47 domestic bases and realign 28 others are $5.7 billion [Ref. 29:p. 27]. The costs associated with the restructuring of defense include base shutdown costs and personnel reduction costs.

In reality, base shutdown costs—environmental cleanup, transportation of personnel and equipment, and the required demilitarization of facilities, to name a few—are larger than expected. "Department of Defense environmental spending, much of it going towards the cleanup efforts at base closures," and most of it funded from O&M, "will grow an estimated three billion dollars in 1991 to $12 billion in 1995" [Ref. 29:p. 21].

Personnel reduction costs—severance pay, discharge administration, and retraining programs—have also consumed larger amounts of current DoD appropriations than expected. The 1993 defense appropriations bill included a $2 billion defense conversion fund to, "cushion the impact of Pentagon budget cuts on defense contractors, their employees and their communities. The Senate, by voice vote, approved an amendment to add $470 million to the $130 million already in the bill for transition grants to workers and communities hit hard by

defense cuts, and also doled out $675 million among ten of the conversion projects covered by the authorization bill" [Ref. 22:p. 2953].

The shutdown costs mentioned above compare with a total estimated savings of $6.5 billion from base closure and realignment, or a net savings of $850 million. And, starting in 1998, annual savings are projected at $1.7 billion [Ref. 29:p. 2792].

It is quite possible that the restructuring of the Defense Department may produce this estimated level of savings, but it is equally likely that the restructuring may consume more dollars than initially estimated, and result in what might be termed a "peace penalty."

L. MANDATORY VERSUS DISCRETIONARY SPENDING

A second justification utilized for shifting dollars from defense to non-defense is rooted in economics—the size of the federal budget deficit and the national debt. Tied to the widespread effects of a sluggish U.S. economy, it seems unlikely that the U.S. government can continue to spend at current rates in all budget areas without raising taxes or increasing the size of the federal deficit. If government revenues matched spending, defense would probably not be as vulnerable to cuts.

Because this is not the case, defense susceptibility to cuts is increased, despite the fact that the actual amount of controllable spending is decreasing as fast as the deficit is increasing. Although defense outlays as a percentage of total

federal outlays have been declining, defense outlays as a percentage of discretionary spending remain near 60 percent (Figure 4.5).

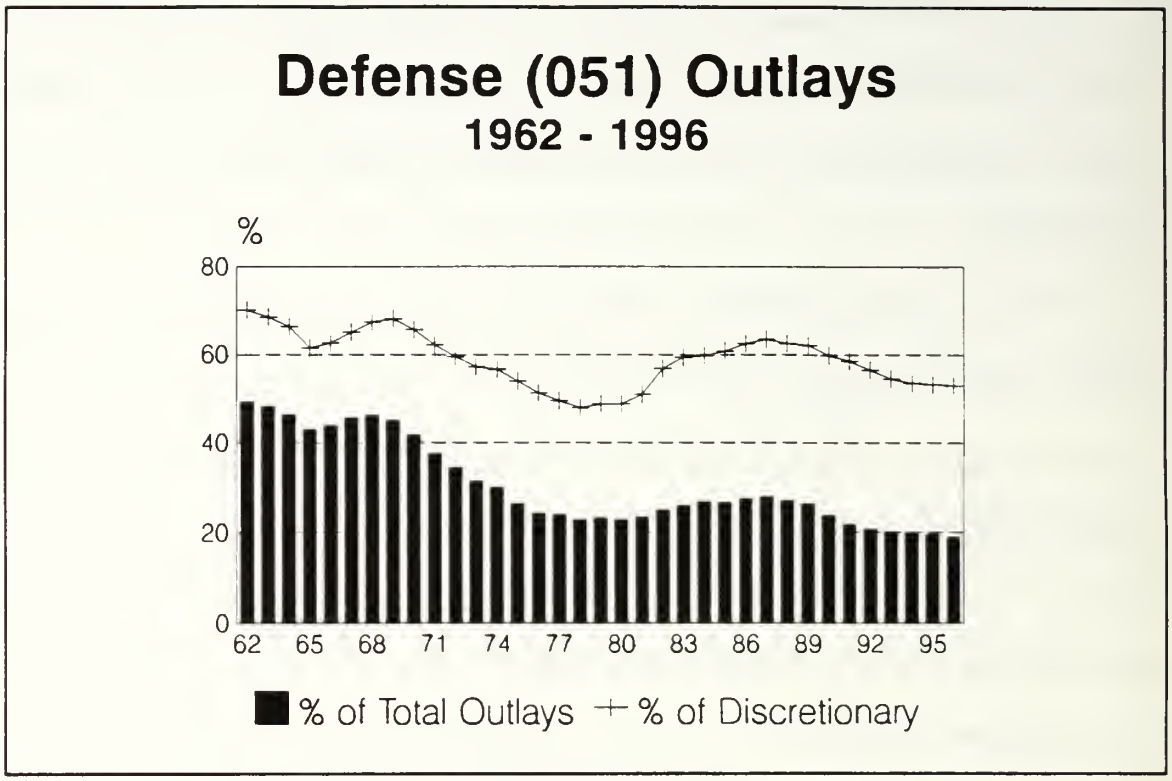

Figure 4.5
Source: OMB Historical Tables, 1992

Furthermore, non-discretionary spending (entitlements and interest on the national debt) continue to consume a larger share of the budget, approximately 50 percent. Entitlements and interest on the debt are the only two categories of spending that fail to indicate a future decline [Ref. 30:p. 55].

The Congressional Budget Office (CBO) reports that in 1991, total entitlements and other mandatory spending were $636 billion or 11.3 percent of GDP, and will rise to $977 billion or approximately 12.2 percent of GDP in 1997

[Ref. 30:p. 56]. According to Office of Management and Budget (OMB), for the period 1985-1997, mandatory spending will increase by 33 percent, domestic discretionary spending by eight percent, while defense BA will decrease by 37 percent [Ref. 31:p. 38].

Interest on the national debt in 1991 reached a total of $196.3 billion or 3.5 percent of GDP [Ref. 30:p. 118-119]. According to the CBO, "interest spending, fueled by the large deficits of the 1980s and 1990s, is more than twice as big, in relation to GDP, as it was in the late 1970s" [Ref. 30:p. 47]. The CBO estimates that net interest will total $278 billion in 1997, or 3.5 percent of GDP [Ref. 30:p. 65].

This brings up an important numerical relationship—roughly half of the total amount of discretionary spending is defense spending. Since Congress eschews cuts to mandatory entitlement spending in favor of discretionary spending, there will be increased scrutinizing and paring of discretionary accounts. Therefore, as the largest single discretionary account, defense spending will face increasing downward pressure.

M. THE RETURN OF GUNS VERSUS BUTTER-THE END OF BEA 1990

A third reason for the continued reduction of defense dollars, tied to the issue of controllable spending, is the competition for dollars between defense and non-defense. This conflict is scheduled to resume in 1993 after the expiration of provisions of the Budget Enforcement Act (BEA) of 1990.

Under BEA, the budget procedure law passed by Congress in the Reconciliation Act of 1990, multiyear spending caps were placed on defense, international, and domestic discretionary spending through FY 1993. These caps, imposed by category, effectively ended the competition for dollars between categories and sidelined the guns versus butter struggle. In 1994 and 1995, a single cap will constrain all three categories combined [Ref. 32:p. 6]. This single cap will again change the complexion of the defense budget by resuming conflict between guns and butter. Chances are, defense will lose additional dollars. According to Doyle and McCaffery:

> Defense will certainly be the target of further cuts. It remains to be seen how significant a reduction in defense spending will be acceptable to both branches of government, how these "savings" are allocated among competing demands for increased spending for nondefense discretionary programs, tax cuts, and deficit reduction, and how other BEA spending control will be altered as part of this adjustment (the single cap) [Ref. 32:p. 7].

The impetus to cut defense will negatively impact DoD ability to efficiently manage its financial resources. In the next section we examine the impact of defense cuts on the O&M appropriation and, consequently, on budget flexibility.

N. THE IMPACT OF DEFENSE CUTS ON OPERATIONS AND MAINTENANCE

This thesis has already analyzed the costs associated with base closures, specific dollar amounts for environmental clean-up costs, and the fact that roughly 50 percent of the total federal budget is uncontrollable.

However, this is not the end of the story. For example, "The financing of the (environmental) clean-up remains at issue between Congress and DoD. Congress insists, over DoD objections, that the work be financed by transfers from other DoD accounts" [Ref. 29:p. 27]. Recalling Les Aspin's affectionate label for O&M as "the biggest black hole of all in defense" [Ref. 15:p. 1822], we believe his reference to "other DoD accounts" means the O&M account. And, where will the dollars come from to meet increased funding needs in other areas, e.g., foreign aid, the personnel conversion program, etc?

There is at least one answer to this question. A House Armed Services subcommittee studied the O&M account and concluded that only 25 percent was directly related to readiness. In its report, the subcommittee stated, "Most O&M funding goes for things other than training and operating tempo..." (overhead) "...it is clear that overhead can be reduced without degrading readiness..." [Ref. 15:p. 1824].

This attitude will cause the O&M account to bear the brunt of further cuts, especially when considering the drastic cuts already endured by the defense investment accounts.

O. THE O&M APPROPRIATION

The Operation and Maintenance (O&M) appropriation includes funding for a myriad of activities. According to the Congressional Research Service's "A Defense Budget Primer," and as briefly described in the previous chapter, O&M

includes: "salaries, benefits, and retired pay for most civilian DoD employees; flying hours; ship operations; training of land forces; real property maintenance; minor construction; equipment maintenance; fuel; repair parts; supplies; various personnel, base operating, and administrative support activities; and health care and Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)" [Ref. 19:p. 22].

By examining this list, which by no means is comprehensive, one can easily conclude that the O&M appropriation is extremely large and complex. In fact, the total defense appropriation for O&M in FY 1993 is $78 billion in budget authority (BA) representing the largest single defense appropriation title in terms of total dollars. After O&M, the next largest appropriation, military personnel, is two billion dollars less. O&M constitutes nearly 30 percent of the defense budget [Ref. 21:p. 3260-3261].

In terms of current dollars, since 1976, O&M BA has not grown as fast as total defense BA (Figure 4.6). In addition, O&M has remained a relatively constant percentage of total DOD BA and total federal BA since 1976. This reinforces our point that as the overall defense pie shrinks, a relatively constant O&M appropriation will be more easily targeted for oversight restrictions.

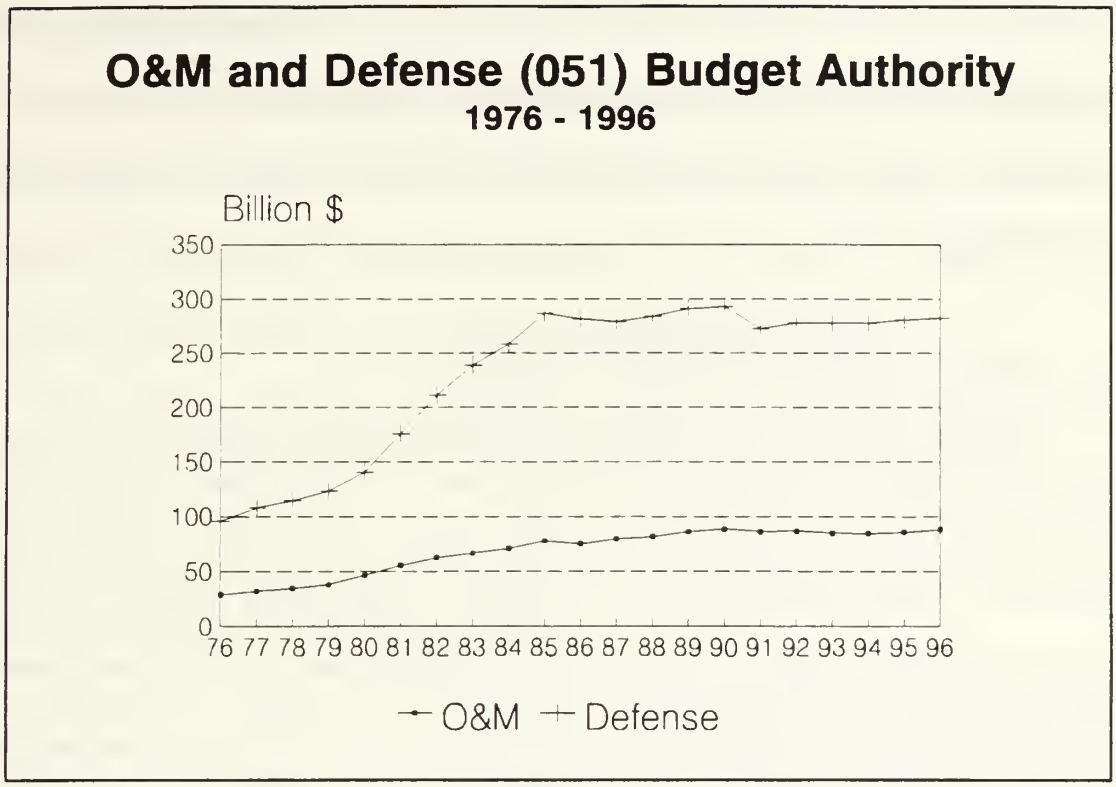

Figure 4.6
Source: OMB Historical Tables, 1992

P. PUMMELLING PROFLIGACY OR PROMOTING EFFICIENCY

One of the current beliefs among defense cutting advocates is that if O&M is the same percentage of the DoD budget as it was during periods of suspected budget profligacy, O&M must contain some institutionalized inefficiencies that can be eliminated. Applying the assumption of at least a "five percent level of inefficiency and wastage in even well-operated, large and complex public or private organizations" [Ref. 33:p. 30], there may exist some slack in the O&M budget. We maintain, however, that a small amount of slack *promotes*

organizational efficiency by providing flexibility to deal with emergent requirements in a timely manner. If O&M represents the only budget area for a commander to exercise discretion, as our next chapter will document, O&M cuts will therefore cut flexibility.

Q. O&M—A QUICK AND EASY TARGET

Besides the absolute size of the appropriation, O&M represents an attractive target for defense cuts based on its outlay rate. As mentioned in Chapter III, in comparison with procurement and military construction, O&M is a "fast-spending" account. And, since one major political aspect of the current defense-cutting rationale is the generation of immediate dollars, cuts are often imposed on fast-spending accounts.

1. The Effect of Uncertainty

Finally, one potential impact of the elevated threat of fiscal cuts to the O&M account and on all accounts within DoD is the increased inefficiency associated with higher levels of operational uncertainty. It is much more difficult to make optimal decisions in a rapidly changing environment. In "The Pentagon Squeeze," Jones sums up this effect of the downsizing:

> The Rubik's Cube (the downsizing of the armed services as referred to by General Merrill McPeak, Air Force Chief of Staff)... is continually being reconfigured, with each move raising disputes that must be negotiated by OSD. At the same time, budget planners, not to mention officials responsible for ongoing programs are left in a state of confusion [Ref. 29:p. 27].

R. CONCLUSION

Current threats to the defense budget have been summarized in this chapter. These threats are likely to lead to further erosion of the budget flexibility of installation commanders from the top down by providing the commander with a reduced O&M budget with which to accomplish the mission.

The chapter presented a historical perspective of the defense budget, highlighting through both text and illustrative graphs the dynamic surge and dribble pattern of defense funding and how this pattern poses difficulties for defense planning and budget execution.

Finally, we suggested the immediate and future impact of defense cuts on the O&M appropriation—increased congressional scrutiny and further reduction.

To reiterate, there are two underlying themes important to our budget flexibility argument. First, cuts in the defense budget will equate to lower O&M appropriations. With lower O&M allocations and a constant or increased number of higher authority mandates, installation commanders will lose additional budget execution flexibility. In essence, the commander's flexibility has been locked in a vise between decreasing top-line budget allocations and increasing spending restrictions and requirements—both of which are partly resultant from a congressional desire to exercise tighter control over defense spending.

Second, as a result of increased congressional interest in defense and the defense builddown, we maintain that the O&M appropriation has become the

likely target for further reduction. The net result will serve to tighten the vise on the commander's flexibility.

Chapter V analyzes the O&M appropriation in further detail. Specifically, it focuses more closely on the flow of funds within the Operations and Maintenance, Marine Corps (O&MMC) appropriation, and demonstrate why it is the only remaining source of budget flexibility for Marine Corps installation commanders.

V. THE OPERATION AND MAINTENANCE APPROPRIATION

This chapter delves into the one budget area—Operation and Maintenance—in which a commander has the potential to exercise budgetary discretion. Here we take one step closer to Marine installations to focus on the issue of budget flexibility within the O&MMC appropriation. After explaining the process and flow of dollars from Congress to the Marine Corps installation level, we will identify specific installation O&MMC spending categories, i.e., the costs associated with doing business at this level. We then tie the O&MMC appropriation to the concept of budget execution flexibility. Finally, we identify the restrictions and requirements within O&MMC, and discuss the impact of these restrictions and requirements on a commander's flexibility. We begin by describing the flow of the O&M appropriation from Congress to the installation level.

A. AUTHORIZATION

Following passage of a budget resolution specifying a ceiling on defense spending, Congress provides funds for DoD through both authorizing and appropriating legislation. Authorization precedes appropriation. Federal law states:

> No Funds may be appropriated for any fiscal year to or for ... or obligated or expended for...operation and maintenance of any armed force or of the activities and agencies of the Department of Defense...unless funds thereof have been specifically authorized by law (10 USC 114) [Ref. 19:p. 43].

Authorizing bills grant legal authority "to establish and maintain a Government program or agency" [Ref. 19:p. 42]. The O&M program is contained within the DoD Authorization Act.

Authorization is followed by the appropriation of budget authority (BA) which permits the actual obligation and expenditure of government funds. Referring back to Figure 3.7, O&M has consistently been around 30 percent of DoD BA and five percent of total federal BA.

1. Appropriations

In general, appropriations are acts of Congress that allow federal agencies to incur obligations and make payments from the Treasury [Ref. 34:p. 186]. Appropriations are subdivided into accounts which include budget-activities and line-items. Once the appropriation act has been signed by the president, it can be implemented. This implementation occurs when the U.S. Treasury signs a warrant citing specific appropriation symbols, dollar amounts and spending restrictions. The warrant is then forwarded to the General Accounting Office (GAO) for countersignature and verification. Countersignature permits funds to be apportioned and allocated to the Department of Defense.

2. Apportionment

The release of funds, or apportionment, "is defined in DODDIR 7200.1 as a 'determination by the director of the OMB as to the amount of obligations which may be incurred during a specific period under an appropriation pursuant to 31 U.S. Code 1512'" [Ref. 35:p. 3-25]. Apportionment controls the rate at which funds are obligated and is intended to generate the most effective and economical use of funds at the DoD level. DoD, in turn, allocates funds to the Services.

Headquarters, Marine Corps (HQMC) provides the documentation necessary to obtain apportionment of appropriated funds and to establish funding authorizations in accordance with prescribed procedures of the Comptroller. Upon receipt of funding from OSD, the Comptroller of the Navy allocates all Marine Corps appropriations to the Commandant of the Marine Corps within "limitations established by Congress, the Office of Management and Budget (OMB), the Office of the Secretary of Defense (OSD), or by his own office" [Ref. 35:p. 1-25]. HQMC then allocates funds to subordinate headquarters.

3. Allocations

"Allocations provide a means of establishing responsibility for fund administration and of ensuring compliance with Congressional intent and Office of the Secretary of Defense (OSD) constraints in the use of funds for programs below the appropriation level" [Ref. 35:p. 3-49]. Funding allocations are provided to O&M appropriation sponsors utilizing Resource Authorization, Navy Comptroller (NAVCOMPT) form 2168-1.

The Commandant of the Marine Corps (CMC) is the appropriation sponsor for the O&MMC appropriation. As such, CMC is charged with supervisory control over the entire appropriation, and during budget execution, can recommend the reprogramming of funds from one program to another within the O&MMC appropriation.

To recap, Congress authorizes funding for executive agency programs, including DoD, and then appropriates funding through OMB's apportionment process. The Defense Department, in turn, allocates specific amounts to the military departments which, in turn, provide suballottments to subordinate units. Figure 5.1 illustrates the flow of funds from Congress to the Marine Corps installation level.

Within the O&MMC appropriation, there are specific congressional, DoD, DoN, and CMC spending directives that are included with the suballottments. We will discuss these shortly.

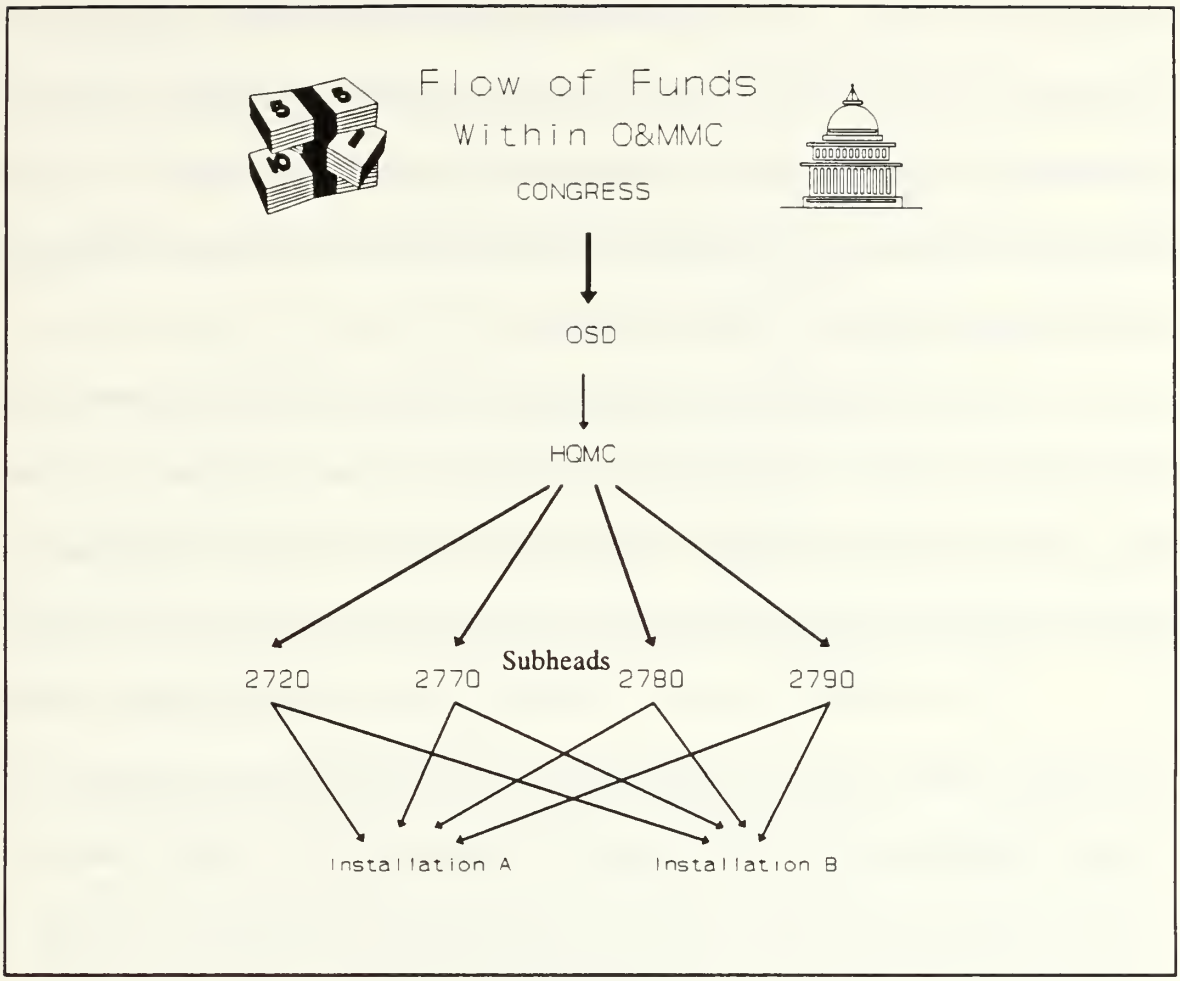

Figure 5.1

4. O&MMC at the Installation Level

At the installation level, it is important to examine the breakdown of funds received by the installation commander. A major Marine Corps command will first see an initial Operating Budget (OPBUD) from CMC. The OPBUD contains installation funding authorization broken down by subhead and by quarter. Subheads are four digit accounting codes used to denote the first level

subdivision of an appropriation. The first two digits identify the administering office (AO), which is responsible for subhead accounting, budgeting and reporting. The last two digits denote the budget activity, an account established within each appropriation to record financial transactions relating to the specific functions contained in the budget as approved by the Congress. Within the O&MMC appropriation, CMC is the AO.

The subheads listed in the OPBUD are 2720 - General Purpose Forces 2770 -General Supply and Maintenance, 2780 - Training, Medical, and other Personnel Activities, and 2790 - Administration and Associated Activities. We further itemize the components of these subheads later in the *Composition* section.

The OPBUD contains a remarks section which specifies spending directives. These restrictions take the form of spending floors, ceilings, and targets. Any time that funding changes in relation to the subhead categories and/or spending directives of the initial OPBUD, the command receives an updated budget in the form of an OPBUD amendment.

The OPBUD also identifies the legal liability of the commander. This liability is stated in a dollar amount to which the commander is held responsible under 31 U.S. Code 1517. This article of law prohibits "any act which will cause an obligation or expenditure in excess of the apportioned or reapportionment made for an appropriation" [Ref. 35:p. 3-45]. Simply stated, spending over authorized amounts constitutes a Section 1517 violation for which a commander is legally liable.

With OPBUD in hand, the commander and his comptroller team begin to implement their budget-execution strategy.

5. Budget Execution

Budget execution—the obligation and expenditure of funds—is the third of four phases of the defense budget process—(1) formulation by the executive branch, (2) review and approval by Congress (the oversight process), and (4) Review and Audit [Ref. 19:p. 31]. Normally, budget execution commences with the start of the fiscal year, October 1, and culminates with the obligation and expenditure of the last dollar of funds on 30 September of the following year (close-out). According to the Navy Comptroller Manual (NAVCOMPTMAN, 1988), budget execution is:

> that phase of the budget cycle which encompasses all the actions required to accomplish effectively, efficiently, and economically the programs for which funds were requested and approved by competent authority. It overlaps the formulation and review phases and continues throughout the period of availability of the appropriations for obligation or expenditure. Effective budget execution requires procedures for control and evaluation [Ref. 35:p. 3-1].

We now turn to the composition of the installation budget.

B. COMPOSITION OF THE INSTALLATION BUDGET

In this section, we will itemize the types of installation spending included in each of the previously mentioned subheads. We begin with subhead 2790.

Funding within the 2790 subhead is for administrative purposes. Camp Pendleton, for example, receives 2790 funding for its Western Area Counsel's

Office (WACO)—its legal facility. Subhead 2780 is allotted for the following: specialized skills training, off-duty education, other personnel support, and training support. Subhead 2770 is strictly for subsistence purchases. And, subhead 2720 is the broadest and most inclusive category of all. It includes the following: maintenance of real property (MRP), base operations support (BASEOPS), service-wide activities, and base communications (BASECOM). [Ref. 36]

A typical Marine Corps installation may be examined to relate these spending categories to actual military activities.

Marine bases and stations exist primarily to support the Marine Corps operating forces. In brief, the installation can be quite large, in essence, resembling the equivalent of a small city—with its own population, utilities, police force, etc. With this in mind, Table 5.1 identifies specific cost categories associated with operating a typical installation.

These cost categories suggest the scope of the financial challenges facing today's installation commanders. The commanders are not alone, however. An examination of an installation's organizational matrix reveals a wealth of functional departments corresponding to these categories listed in Table 4.1. These departments are staffed by experts in each functional area, and are designed to execute installation operations.

TABLE 5.1. INSTALLATION EXPENSES

Utilities	ADP Services	Military Clothing
Engineer Support	Disbursing	Child Dev. Center
Fire Protection	Command Admin	MRP*
Refuse Collection	Comptroller	Minor Construction
Police/Security	Civilian Pers	Temp. Storage
Safety	Equal Opp Office	Religious Programs
Pest Control	Attorneys Fees	Comp-in-arms*
Custodial	Printing	FP&SE*
Interim Leasing	Reprographics	Minor/Plant Prop
Statutory Compliance*	Property	Traffic Mgmt
PSE (Billeting)*	PSE (Offices)*	Housing
Crash Fire Rescue	Refueler Ops	Billeting
MWR Spt (Cat 'B')*	Base Comm	TAVSC*
Weather Services	Range Ops	Libraries
Air Traffic Control	Explosive Disp	Intra-station moves
Underground Storage	Hazardous Waste	Emergency Leave
FECA Payment*	GME Support*	Messhall Ops
Natural Resources	Family Services	Supply/Purchasing

* See Appendix A for explanation.

Source: Camp Pendleton 1993/94 POM Impact Statement

The commander and the installation's functional experts are placed at a budgetary disadvantage from the onset. With restrictions on spending identified in the initial OPBUD, the commander begins the year with significant constraints on execution flexibility.

These constraints, introduced in the next section, can be extremely frustrating. As discussed in Chapter I, the results of the Unified Budget Test indicate that a commander facing fewer constraints is more likely to execute a budget more efficiently. The current number of restrictions in the commander's

budget create a perpetual struggle to do more with less as a larger portion of each year's budget is used to meet imposed spending floors, which may be higher than what is necessary to comply with higher authority intent.

We now turn to a discussion of O&MMC as it relates to flexibility, and specific budget execution restrictions placed on the Marine installation.

C. O&M AND FLEXIBILITY

Among all appropriations, O&MMC is the only source of true budget execution flexibility for Marine Corps installation commanders. The commander receives funds from many other sources, but all other appropriations (Procurement, Military Construction, Family Housing, etc.) are passed down to the installation level having already been earmarked or fenced for specific projects. While the commander has the flexibility, in most cases, of determining the priority of projects for which to request funds, there is no flexibility in the execution of the budget once those funds arrive.

This inflexibility in the use of other appropriations is likely to lead to many of the inefficiencies discussed in the chapter on flexibility. The funds must be used for the specific projects for which they were earmarked, and any unused funds cannot be used for other purposes, but must be returned. This removes an economic incentive to complete a given project for less than the amount already earmarked. In addition, returning funds at the end of the year is looked upon

unfavorably, rather than encouraged. This problem, however, is the subject of another study. The focus of this thesis is restricted to the O&MMC appropriation.

As stated above, O&MMC is virtually the only source of funding that allows the installation commander any measure of flexibility. It is the only appropriation in which the commander may use discretion in determining the most effective and efficient utilization of funds, once the funds have been received. It is, therefore, the appropriation that currently provides incentives for efficient allocation of resources. Unfortunately, even this source of flexibility within the installation commander's budget has been significantly eroded by the restrictions placed on funds within the account, and by the growth of fixed costs in the operation of bases and stations.

D. RESTRICTIONS AND REQUIREMENTS WITHIN O&MMC

In the execution of installation budgets, flexibility has been drastically diminished in recent years. In addition to decreases due to declining top-line budgets, flexibility has been reduced from the bottom up in two primary ways: 1) increasing numbers of restrictions placed on how the funds are spent, which results in tighter competition for scarcer funds; and 2) increases in specific kinds of required spending, i.e., mandatory programs and rising fixed costs. While some flexibility erosion falls partly within each category, we will address each category separately within this section.

1. Spending Restrictions

One way to think about restrictions is to look at them as fences placed around certain pools of money. The purpose of these fences is to ensure that the programs for which each pool of money is provided are fully funded to the extent to which funds are available. The most notable fences within O&MMC are the appropriation subheads mentioned earlier.

Once the O&M funds have been funnelled into their separate subheads, the installation commander loses the flexibility to shift funds from one subhead to another. The authority to transfer funds between subheads is held at the CMC level. At best, this segregation of funds provides a measure of protection from renegade installation commanders with blatant disregard for HQMC intent. At the worst, the segregation of funds undermines any incentives a commander may have to execute efficiently within any subhead which has received more funding than necessary. If excess funds within a subhead will be withdrawn and, most likely, removed from the budget base in the following year, the installation commander is encouraged to find creative (and possibly wasteful) ways to spend money within its given subhead.

The subheads, however, are not the only sources of restriction on O&MMC execution. The subheads are further compartmentalized into program packages at the HQMC level. These program packages are managed by program sponsors who are watchdogs and advocates for what they consider the proper

utilization of funds within their programs. The following table may be useful in conceptualizing the large number of program restrictions currently in existence.

TABLE 5.2. O&MMC DIRECT PROGRAM PACKAGES

Subhead	Program Package (PP)	PP Code
2720	Base Operations, Other	2BO
	Base Operations, MRP (Minor Const)	2BO
	Base Operations, MRP (Maint & Rep)	2BO
	Audio Visual	2BO
	Base Communications	2BC
	Service Wide Activities	2SW
2770	Subsistence in Kind (SIK)	7SP
2780	Special Skill Training	8SS
	Training Support	8TS
	Off Duty Education	80D
	Other Personnel Support	80S
2790	Other Administrative	90A

Source: MCB, Camp Pendleton internal document "Program Package Code Definitions."

The funding received by an installation commander is quite compartmentalized. To be effective advocates, each program sponsor must see their program as the most important program in the Marine Corps. Therefore, if a commander underexecutes in any given area, it will be that much more difficult to justify funding in the following year, because the sponsor will always get money to those commanders who demonstrate an ability to spend program funds. Again, this system runs counter to incentives for efficiency.

2. Strength of Restrictions

While the fences between subheads are inviolable at the installation level, some of the program fences are sturdier than others. This occurs because some program sponsors maintain stronger control over their programs due to their current political importance. The Other Personnel Support program, for example, is currently the most powerful program in the Marine Corps because it contains such politically important quality of life items as child development and family advocacy. The Service Wide Activities program is similarly powerful because it contains funding for such must-pay items as environmental management and Federal Employment Compensation Act (FECA) claims.

Apart from the inviolable fences created by subheads, and the political power of the programs mentioned above, the firmness of the fences within subheads can generally be determined from the wording on the OPBUDs. The funding for flight operations is firmly fenced, and the OPBUD states that it cannot be spent for other purposes, and should not be exceeded without approval from higher authority. Similarly, funding for maintenance of real property (MRP) has a floor for spending and is "not available for other purposes, without prior CMC approval" [Ref. 36:p. 1]. In the FY 1992 Defense Appropriations Conference Report, in the section on real property maintenance, it states: "The conferees agree to establish the Real Property Maintenance, Defense account under the control of the Comptroller of the Department of Defense" [Ref. 16:p. 51]. This is a step toward greater centralized control, and away from flexibility.

While it is easier to get prior approval "for other purposes" within some programs than within others, all these restrictions diminish the commander's flexibility until the only place flexibility can be found is within the 2BO Program Package Code categories.

3. Competition for Funds

While O&M is increasingly seen as a source of funding for other uses, the same is true of the Base Operations, Other category within O&MMC. When Congress provided in the FY 1990 Defense Authorization Bill for the establishment of mandatory DoD support of childcare services upon installations, they determined that the majority of the funding should be provided from the existing budget base. Consequently, according to the office of the Fiscal Director, the Marine Corps shifted $7.7 million dollars into childcare from other base operations accounts for FY 1992. For FY 1993 the transfer is set for $13 million [Ref. 37]. These dollar amounts seem small within the grand scheme, but every dollar taken away is a decrease in flexibility for the commander.

A similar situation occurred in FY 1991 when HQMC determined that environmental management and FECA should be funded at the installation level. Some additional funds were provided in the installation budget base, but significant portions of the funding were transfers from other base operations accounts. By establishing increased spending requirements without commensurate increases in funding, higher authorities are forcing commanders into a position of decreased flexibility.

4. The Latest Assault on Flexibility

The most recent attempt at restriction on the commander is the decision by DoD that FY 1993 minor construction funds should be transferred into the Military Construction Appropriation account. Minor construction has traditionally been a source of tremendous flexibility for the commander because funds can be rapidly obligated at year end to existing contracts. This allowed the commander to hold on to funds for contingencies throughout the year, but still execute on target at the end of the year.

The reason DoD wants the funding to be transferred is that Military Construction is a slow-spending account compared to O&M. Since Military Construction outlays can be shifted from the current year to subsequent years, DoD can effectively avoid current year outlays without having to reduce requested funding levels in the politically important area of MRP.

As of the FY 1992 House Defense Appropriations bill, Congress had not approved this action, and they maintained the importance of current year spending on MRP. The DoD is still pursuing the option of shifting minor construction funding into the Military Construction Appropriation. If this transfer becomes reality, this will have the effect of further limiting a commander's flexibility to the Base Operations, Other category of spending.

5. Spending Requirements

While the restrictions have diminished flexibility for installation commanders until it exists only in a small corner of their budget, required spending is rapidly eating up even that small corner. Within Base Operations, the commander must pay for a variety of activities. Included in this category is money which must be spent on the Marine Corps drug program. This is essentially a fence within a fence, because the spending for this program is mandatory, and the funding designated for drug reduction cannot be spent for other purposes.

Similarly, though not as strictly required, is appropriated fund support for the Morale, Welfare and Recreation (MWR) activity. This support is provided as a target amount based on the importance which the Marine Corps places on "quality of life" issues for its Marines. This category of spending has become more important since a 1991 study by the Morale, Welfare and Recreation branch at HQMC notified the Office of the Secretary of Defense (OSD) that the Marine Corps spends fewer dollars per service member on MWR than do the other services [Ref. 38].

Two other important sources of required spending are environmental management and FECA. These items are legal liabilities for the installation commander. Failure to pay certain fines or claims, or to comply with regulations, could result in criminal charges being filed. While there are funds available within the 2SW PP Code specifically for these items, if expenses exceed the funds

provided, the commander has no choice but to pay them from Base Operations.

6. Rising Fixed Costs

The two largest expense items at almost every installation are civilian labor and utilities, both of which are paid from Base Operations.[1] For any given budget year, these two categories can be looked upon as fixed costs. This is true for several reasons.

Civilian labor is largely fixed due to the fact that the rules governing federal employees and employment make it extremely difficult to release employees who have gained a permanent status. Even if a position is eliminated, efforts must be made to find another position for the affected employee.

One of the only ways to significantly reduce the civilian workforce at any installation is a reduction in force (RIF). This must be approved in advance by the Secretary of the Navy, and the mandatory transition assistance and termination allowances can make this an extremely expensive option in the short term. Also, if a commander fails to execute the full dollar amount specified under the Manage-to-Payroll (MTP) budget, that commander will likely face a reduction in this budget for the following year. This provides an incentive to spend all the funds received for this purpose, even if the mission could be performed with less.

Utilities can be looked on as fixed for a different reason. It is obvious that there is some minimum level of utility use which is necessary to allow an

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[1]. These "fixed costs" actually contain both fixed and variable elements. The usage here conforms to that observed at the units studied.

installation and the units residing on it to fulfill their missions. This is one area in which installation commanders have taken great pains to cut back in recent years, and most installations are currently at, or near, a "bare bones" level of utility usage. The only way for most to reduce further in the short term would be a change or reduction in the mission requirements.

Although we have called these categories fixed, they are really anything but fixed because of inflation. Civilian pay raises are mandated by Congress, and much of the raise for each fiscal year must be absorbed from existing funds. Likewise, utility costs have been rising drastically in many parts of the country, which can have a disastrous effect on the installation commander's budget if the changes were not anticipated when the budget was formulated a year before execution.

These rising fixed costs have the effect of continuing to eat into a progressively smaller portion of the pie which is available for reaction to emerging requirements and for efficient allocation of resources.

7. Conclusion

At this point we picture a nervous sheep grazing in a field that is being gradually fenced into a smaller and smaller area. At the same time, increasing portions of the enclosure are being planted with crops which are poisonous for sheep. Eventually, the sheep will eat its last blade of grass, and either slowly starve to death or venture over into the poisonous herbs and die quickly.

The installation commander is in an analogous situation. Soon, required spending could exceed the funds provided, and the commander will be faced with difficult decisions. An obvious but painful choice will be to skimp on mission performance. The alternative is to cross over the legal lines between funds and risk a Section 1517 violation that could result in criminal prosecution.

VI. PRESENTATION AND ANALYSIS OF DATA

This chapter presents and analyzes the data obtained during our installation research. These data, together with the material presented in our earlier chapters, form the foundation upon which we base our conclusions. First, we will indicate the sources of data and introduce the reader to the subject installations. Then we will outline the framework, or algorithm, that we developed for measuring budget flexibility. Finally, we will present the data and analyze them to support our premise that budget flexibility at the installation level has, in fact, decreased significantly over the period of our study.

A. SOURCES OF DATA

As previously indicated, the data collected from the three subject installations were gleaned from several different sources. Each installation maintains records differently, thereby making strict comparison of data between installations problematic. However, consistency from one fiscal year to the next for each installation has been maintained, allowing analysis of changes in flexibility at a given installation over time.

The primary sources of budgetary data at all three installations were operating budgets (OPBUDs), and funding authorization messages. In addition, Kaneohe Bay and Camp Pendleton data were obtained from report B of the

Marine Air Ground Financial Accounting Reporting System (MAGFARS) 10890 reports. Each of these sources conveys different types of information, examples of which are located at Appendix B.

1. Operating Budgets

As introduced in the previous chapter, OPBUDs are usually received at the installation on a monthly basis, beginning with the initial OPBUD on or about 1 October of the new fiscal year. Marine Corps installation OPBUDs originate at HQMC in the Fiscal Division. However, as we will see shortly, some installations have an intermediary level of command between themselves and HQMC, so they receive Sub-OPBUDs from their parent organizations.

OPBUDs indicate the current levels of funding, broken down by subhead and fiscal quarter. In addition, OPBUDs highlight changes in the funding level which have occurred since the issuance of the prior OPBUD. Perhaps the most important portion of the OPBUD is the remarks section that identifies current fencing (ceilings or floors) for certain budget programs within subheads, e.g., MRP, DoD Drug Program, etc. Whether it be the initial OPBUD, or a monthly amendment, this is the installation commander's primary encounter with budget control from above.

2. Funding Authorization Messages

For the most part, funding authorization messages originate at the next level of budget hierarchy above the installation. These messages are sent

whenever there is a change in the level of funding authorization for the installation, and are summarized in the monthly OPBUDs. They inform the installation commander of increases or decreases in funding authorization for the year, and also specify the funding category, or pool, in which the money should be spent.

Almost all funding passed down through the authorization messages is earmarked for a specific use. These uses range from maintenance and construction projects, to items of equipment, to travel or tuition expenses for specifically named individuals. Although the provision of these funds precludes the commander from having to use other funds for necessary items, there is no flexibility resident in the majority of funding which is provided through the funding authorization messages. If the funds cannot be used for the purpose specified in the message, they usually must be returned, unless another high priority item within the same funding category can be identified.

The funding messages, then, are another way of identifying fencing within the total dollar amount of funding available to the installation commander.

3. 10890 Reports

The 10890 reports were monthly accounting reports that provided a great variety of information. Of specific usefulness for our research is the end-of-year report B, which detailed the actual dollar amounts executed at each installation. Execution is broken down in several different ways, e.g., expense elements, program packages, fund administrators, etc. From these reports, it is

possible to determine exact amounts spent on such things as utilities, labor, MRP, and any other item of interest.

Although the 10890s are no longer in use because of the recent transition to the Standardized Accounting and Budgeting Reporting System (SABRS), many budget personnel we interviewed would like to have parts of them back. Much of the information they provided is no longer easily accessible through SABRS. For this reason, data obtained from FY 1992 and beyond may not be completely comparable to the data gathered for this study.

B. THE INSTALLATIONS

What follows is a brief review of how each subject installation is unique, include funding and available data sources.

1. Marine Corps Air Station, El Toro, California

Located in Orange County, California, MCAS, El Toro is home to the Third Marine Aircraft Wing (MAW). El Toro, like Camp Pendleton, is subject to the high cost of living and extremely stringent environmental regulations of Southern California. It is also similar to Kaneohe Bay in that it obtains its funding through an intermediary command, vice directly from HQMC.

El Toro is one of four air stations under the administrative control of Commander, Marine Corps Air Bases, Western Area (COMCABWEST), co-located on MCAS, El Toro. This added level in the budget hierarchy is yet another source

of restriction on budget execution, albeit a minor one compared to HQMC and Congress.

In terms of data availability, El Toro was unique among the three subject installations. Report B of the 10890 was unavailable for any fiscal year. Consequently, we were unable to derive a figure for purchased services comparable to those derived for the other installations. Also, data concerning the "other fenced" category for FY 1988 was unavailable. Although we were able to generate an approximation of the FY 1988 "other fenced" category through linear regression, a completely accurate analysis of the data for El Toro consists of only FY 1989 through 1992. Apart from these limitations, it was apparent that El Toro's record keeping was quite thorough and reliable. The comptroller department also maintained a large amount of internal analyses, some of which were quite useful for assisting with our analysis.

As with the other two installations, the cooperation provided was substantial. We have no apprehensions concerning incomplete or erroneous data among the data which were available.

2. Marine Corps Air Station, Kaneohe Bay, Hawaii

Kaneohe Bay, Hawaii is home of the First Marine Expeditionary Brigade (MEB). Like Southern California, the island of Oahu is characterized by a relatively high cost of living, and an active public and legislative concern for the environment. Uniquely among the subject installations, the island location also generates higher relocation expenses and higher travel related expenses. In

addition, portions of the air station occupy a former Hawaiian burial ground, wildlife refuges, and pacific coastline beaches, all of which must be maintained and protected. Various archeological surveys and environmental impact studies are frequently necessary throughout the installation.

Like El Toro, Kaneohe Bay is subject to receiving its funding from an intermediary source. Administratively, the installation falls under the Commander, Marine Corps Bases and Stations Pacific, located at MCB, Camp Smith, Hawaii. An comparison of the Sub-OPBUDs for El Toro and Kaneohe Bay seem to indicate that the fencing generated at Camp Smith is less pervasive than that generated by COMCABWEST.

The data gathered for Kaneohe Bay were the most complete and consistent across the entire span of our study—FY 1988 to FY 1992. The 10890s and Sub-OPBUDs were easily accessible and contained no time-period gaps. The 10890s allowed us to derive a complete picture of the fixed costs, and the funding authorization messages were clear as to the fences imposed for any given fiscal year.

3. Marine Corps Base, Camp Pendleton, California

Camp Pendleton, home of the First Marine Division and the First Force Service Support Group (FSSG), is one of the largest bases in the Marine Corps, both in geography and in population. This distinction serves to offer both the advantages of economy of scale and the disadvantages of massive size. Its location in drought-ridden, smog-filled Southern California provides it with

sizeable firefighting and environmental responsibilities. Like Kaneohe Bay, which is also home to several wildlife refuges, numerous endangered species, and over twenty miles of sandy beaches, Camp Pendleton is constantly under environmental scrutiny. Additionally, recreational beach access, geographic dispersion of facilities and units, and the fact that Camp Pendleton's roadways serve as alternative routes for military and civilian traffic when Interstate Route 5 is occasionally closed, place a heavy burden on the infrastructure.

Alone among the subject installations, Camp Pendleton receives its funding directly from HQMC. As previously indicated, this means they are not subject to additional fences imposed by an intermediate level of command. Also, due in part to its size, Camp Pendleton's annual operating budget is much larger than those of either El Toro or Kaneohe Bay.

Like Kaneohe Bay, we were able to obtain full data sets for Camp Pendleton for FY 1988. This enables us to perform analysis on five full years of data, with no gaps in our information.

C. FENCED, FIXED AND FLEXIBLE

As indicated throughout this thesis, one of the primary sources of decreasing budget flexibility is the increase in required spending. As identified in the last chapter, required spending takes on the form of both fenced funding and fixed costs. We have developed an algorithm for measuring the flexibility resident

within any installation budget which takes into account both shrinking budget resources, and increasing required spending. The algorithm is as follows:

Flexibility = 2720 Direct Budget Authority - (Fenced Funds + Fixed Costs)

1. 2720 Direct Budget Authority

As related earlier, subheads 2770, 2780 and 2790 are not considered in the flexibility algorithm because all these funds have been solidly fenced off for specific purposes. Likewise, indirect funding in the form of unfunded reimbursables is not included because these funds are also earmarked for specific purposes. In addition, we only include that portion of MRP funding which is allocated at the beginning of the fiscal year, because subsequent allocations are all identified with specific projects, and are determined by service-wide priorities, rather than installation priorities. We have also attempted to remove all funding designated for Desert Shield/Desert Storm (DS) expenses. This was easily accomplished for El Toro, but was not quite as clear-cut for Kaneohe Bay and Camp Pendleton. Finally, we eliminated Flight Operations funding for the air stations for all four years because of its conversion to unfunded reimbursable status in FY 1991.

With these caveats, the 2720 Direct Budget Authority is the funding which has been allotted to the commander for the operation of the installation. This is where flexibility resides. Restrictions within this category, i.e., fenced funds and fixed costs, reduce this flexibility.

2. Fenced Funds

Fenced funds are those which have been earmarked for specific projects or programs within the funding authorization messages. Portions of initial funding authorizations are fenced, but the vast majority of all funding increases received during the year fall into this category. The earmarks can be for such things as FECA, environmental management, the DoD drug program, child care (prior to its transfer into 2780 in FY 1992), Personnel Support Equipment (PSE), Food Processing and Serving Equipment (FP&SE), etc. In our presentation of the data below, the "Other Fenced" category includes funding which was earmarked for specific uses, but does not fit within one of the major fenced categories listed. It should be noted that some of these fenced categories can also be considered fixed costs.

3. Fixed Costs

The fixed costs of utilities and civilian labor were described in the last chapter. In addition, we include non-MRP service contracts, such as the messhall contract and other purchased services. These contracts are fixed in that most are annual contracts at a minimum, and they are necessary to the basic operation of the installation, assuming there is no reduction in assigned mission. As a recap, we classify these expenses as fixed because there is very little a commander can do to reduce them in the short term without taking drastic action which may have long term detrimental effects.

4. Flexibility

What is left after reducing the total direct 2720 funds available, and then fencing off large portions for specific purposes and subtracting the large fixed costs, is the flexible budget. It should be remembered that this flexible sum is used to pay for all the supplies and materials which are necessary for the operation of the installation. In addition, if requirements emerge for larger expenditures in any of the fenced areas, the difference will have to be made up from the flexible portion of funding.

5. Presentation and Analysis of the Data

With the flexibility algorithm explained, we will now present the data for each of the subject installations. As stated in our introduction, this study covers fiscal years 1988 to 1992.

It must be reiterated that the 10890 reports were discontinued at the close of FY 1991. Since we depended heavily upon these reports for Kaneohe Bay and Camp Pendleton between FY 1988 and 1991, data for FY 1992 may not be completely comparable. Our research allowed us to approximate very nearly the same results using the available reports. The problem did not exist for El Toro since we did not utilize 10890 reports for that installation.

Unless stated otherwise, all dollar amounts are the actual figures obtained from the source documents, converted to constant 1988 dollars. The composite GNP deflators used to convert current dollars to constant dollars are those obtained from the OMB Historical Tables for 1992. [Ref. 27:p. 17]. Since

those tables were in constant 1982 dollars, the deflators were converted to reflect constant 1988 dollars. Percentages given are of 2720 Direct Budget column totals.

Immediately following the presentation of the data for each installation, we will analyze the data for that installation. Following the analysis of the last installation, we will provide a summary analysis to tie all the installations together.

6. Data for MCAS, El Toro

TABLE 6.1. FISCAL YEAR 1988

2720 Direct Budget		45,975,700
Less Fenced		
MRP Floor	12,347,499	
Other Fenced[1]	2,045,113	
Total Fenced		14,392,612 (31.30%)
Less Fixed		
Non-MRP Labor	17,811,730	
Utilities	5,986,136	
Total Fixed		23,797,866 (51.76%)
Flexibility		7,784,222 (16.94%)

Note 1: Data for FY 1988 were insufficient to determine the Other Fenced category. This number is an estimate obtained through linear regression of the Other Fenced category for subsequent years.

TABLE 6.2. FISCAL YEAR 1989

2720 Direct Budget		44,393,209
Less Fenced		
MRP Floor	11,939,295	
Other Fenced	2,453,007	
Total Fenced		14,392,302 (32.42%)
Less Fixed		
Non-MRP Labor	17,655,798	
Utilities	5,584,953	
Total Fixed		23,240,751 (52.35%)
Flexibility		6,760,156 (15.23%)

TABLE 6.3. FISCAL YEAR 1990

2720 Direct Budget		43,587,041
Less Fenced		
MRP Floor	11,920,133	
FECA	320,160	
Other Fenced	3,257,782	
Total Fenced		15,498,075 (35.56%)
Less Fixed		
Non-MRP Labor	17,616,879	
Utilities	5,864,025	
Messhall Cont.	125,158	
Total Fixed		23,606,062 (54.16%)
Flexibility		4,482,904 (10.28%)

TABLE 6.4. FISCAL YEAR 1991

2720 Direct Budget		43,355,046
Less Fenced		
MRP Floor	10,829,687	
FECA	715,966	
Environmental	1,961,694	
DoD Drug Prog.	147,942	
Child Dev. Ctr.	2,373,425	
Other Fenced	3,331,164	
Total Fenced		19,359,878 (44.65%)
Less Fixed		
Non-MRP Labor	16,902,926	
Utilities	5,134,877	
Messhall Cont.	206,281	
Total Fixed		22,244,084 (51.31%)
Flexibility		1,751,084 (4.04%)

TABLE 6.5. FISCAL YEAR 1992

2720 Direct Budget		51,123,562
Less Fenced		
MRP Floor	13,196,577	
FECA	1,093,015	
Environmental	7,277,688	
DoD Drug Prog.	59,596	
Child Dev. Ctr.[1]	0	
Other Fenced	2,903,973	
Total Fenced		24,530,849 (47.98%)
Less Fixed		
Non-MRP Labor	17,270,646	
Utilities	7,180,141	
Messhall Cont.	196,552	
Total Fixed		24,647,339 (48.21%)
Flexibility		1,945,374 (3.81%)

[1] Child Development Center transferred to Subhead 2780 in FY 1992.

7. Analysis for MCAS, El Toro

Of the three installations, El Toro provides the most definitive support for the premises of our thesis. As is clearly evident in examining the 2720 Direct Budget line for each fiscal year, the top-line budget in real terms has declined in every year from FY 1988 to 1991. Although there was a sizeable increase in FY 1992, it is too early to tell whether this is a contradiction of our position or merely an anomaly. It is possible that the budget was increased to accommodate the tremendous increase in environmental management costs.

Likewise, Tables 6.1 through 6.4 show that bottom-line flexibility, as computed using our flexibility algorithm, has decreased both in constant dollars and in percentages of the total top line for each of the years from FY 1988 to 1991. There is a slight upturn in real dollars of flexibility for FY 1992, but the actual percentage of flexibility continues to decline. The degeneration of budget flexibility for El Toro is presented in Figures 6.1 and 6.2.

As mentioned before, the funds fenced for both FECA and Environmental Management showed large increases over the previous year. The huge jumps in fencing for these two categories more than offset the decreases in the DoD Drug Program and the Child Development Center (CDC). It should also be noted that the 2720 budget base was decreased in FY 1992 when the CDC funding was transferred to Subhead 2780. The fence around these funds was merely shifted to another area of the budget and made sturdier, rather than

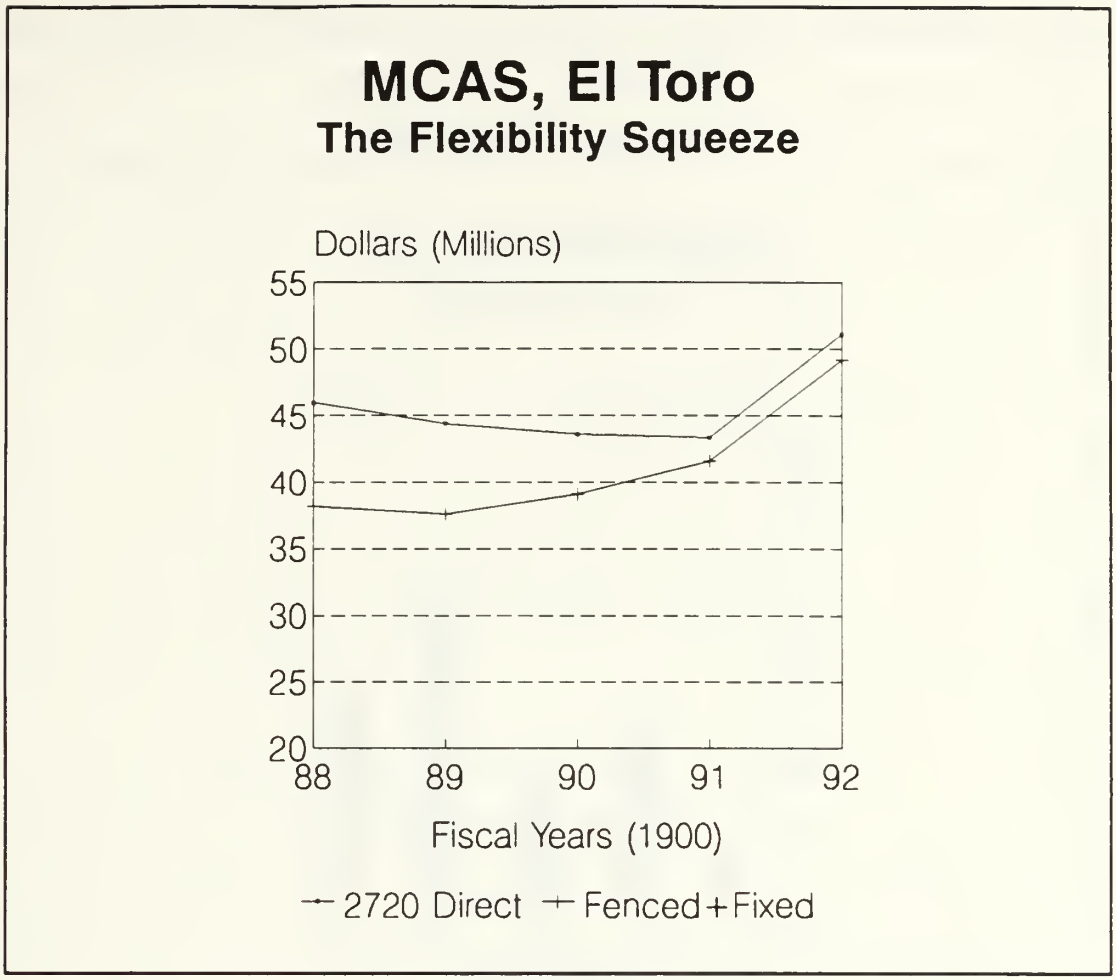

Figure 6.1

eliminated as one might assume from review of Table 6.5.

Turning to examine the fixed costs for FY 1992, both Non-MRP Labor and Utilities were increased over the previous year (Utilities to the highest constant dollar level seen in the period of the study). Again, these large increases more than offset the minor decrease in Messhall Contracts.

An important point to remember is that flexibility as a percentage of the total budget is exhibiting a steady decline over the entire period of our study. Obviously, this holds true for both constant and current dollar analyses. The 17

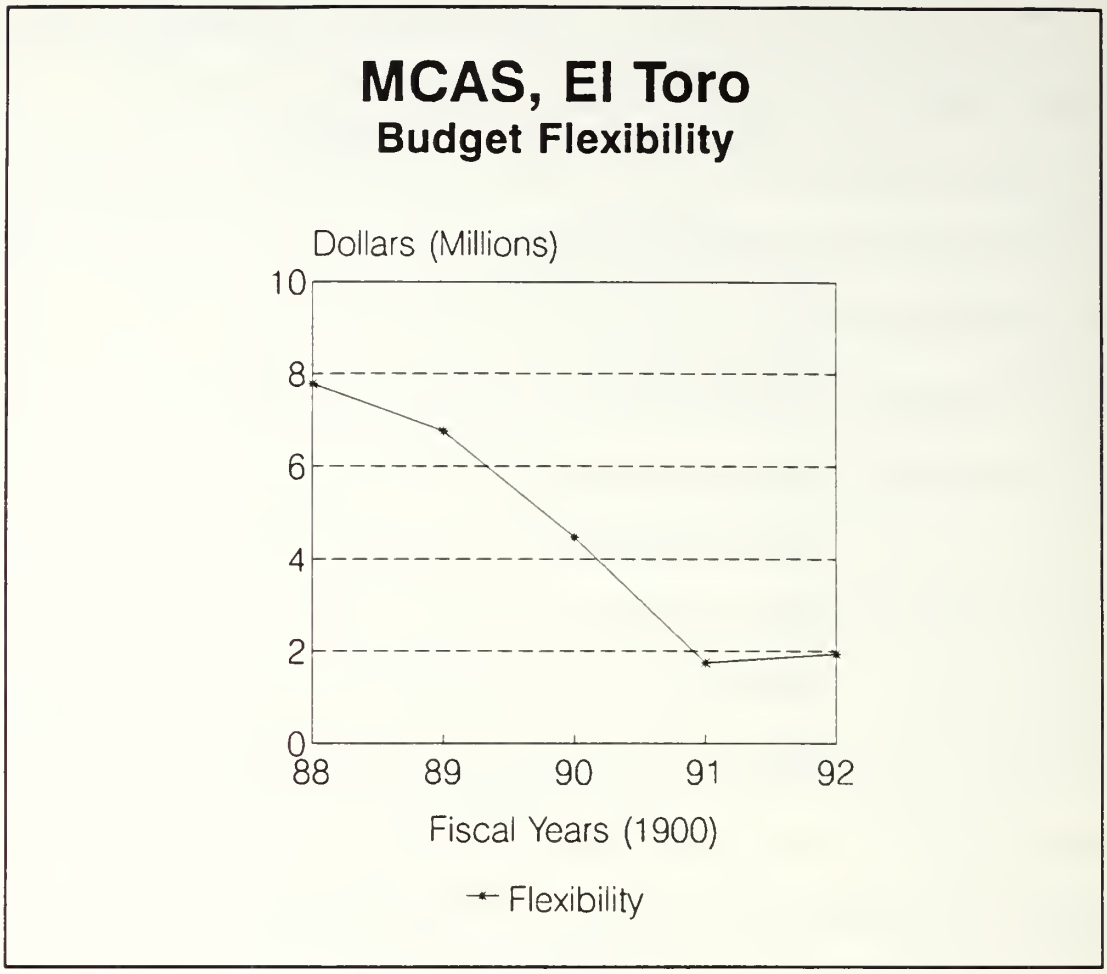

Figure 6.2

percent level present in FY 1988 may have indicated excessive funding in some areas, but the 3.81 percent flexibility in FY 1992 cannot continue if the desired outcome of efficient allocations of resources is to be achieved.

Another important point when considering the data for El Toro is that, although labor costs have remained fairly constant in real terms over the last five years, the workforce at El Toro has shrunk from 746 employees in FY 1988 to 657 in FY 1992. This relationship is visible in Figure 6.3. The decrease in employees

combined with the constancy of cost represents a definite real growth in cost per employee.

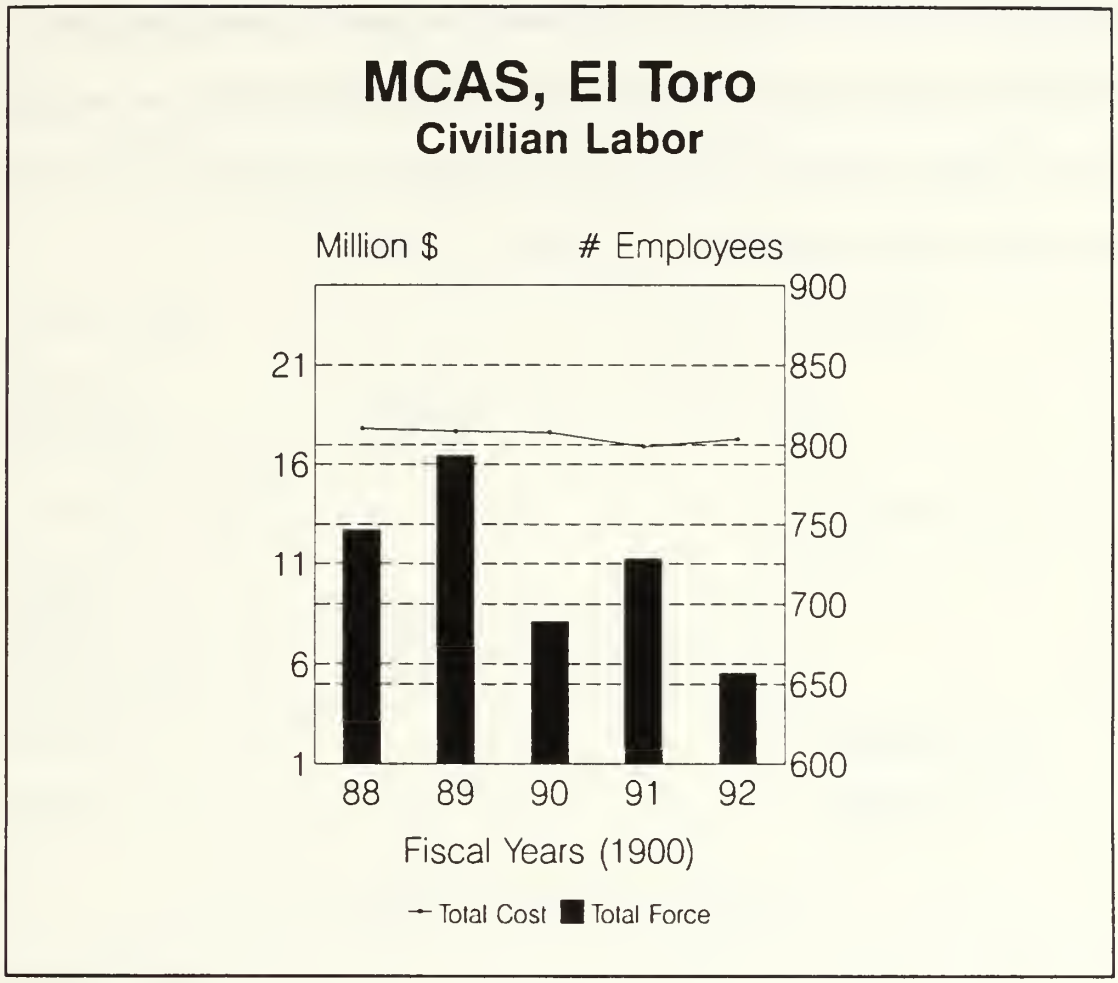

Figure 6.3

Also, there are even fewer civilian billets available for base operations than is indicated by the top-line figure of 657. This is because seven mandatory, appropriated fund child-care billets were created in 1992, which are included within the total of 657. Since the dollar figures for labor only reflect 2720 funds, the cost per base operations employee is increased even more.

It seems clear from the data that MCAS, El Toro has been facing vastly diminished budget flexibility over the period FY 1988 to 1992, with the trend likely to continue. As alluded to in the section above on flexibility, there are legitimate budget needs that must be covered through flexibility. For this reason, the true budget flexibility picture for the installation commander is even bleaker than what we have presented.

8. Data for MCAS, Kaneohe Bay

Let us now examine the situation at MCAS, Kaneohe Bay. The data for Kaneohe Bay are not as unequivocal as those for El Toro. However, they support the premise of decreasing top-line budgets and increasing required spending.

TABLE 6.6. FISCAL YEAR 1988

2720 Direct Budget		26,905,650
Less Fenced		
MRP Floor	7,636,300	
Other Fenced	725,916	
Total Fenced		8,362,216 (31.08%)
Less Fixed		
Non-MRP Labor	7,400,683	
Utilities	2,125,899	
Purchased Svcs	4,462,702	
Total Fixed		13,989,284 (51.99%)
Flexibility		4,554,150 (16.93%)

TABLE 6.7. FISCAL YEAR 1989

2720 Direct Budget		26,969,589
Less Fenced		
MRP Floor	7,068,485	
Other Fenced	1,703,734	
Total Fenced		8,772,219 (32.53%)
Less Fixed		
Non-MRP Labor	7,361,261	
Utilities	2,281,204	
Purchased Svcs	3,845,331	
Total Fixed		13,487,796 (50.01%)
Flexibility		4,709,574 (17.46%)

TABLE 6.8. FISCAL YEAR 1990

2720 Direct Budget		25,220,893
Less Fenced		
MRP Floor	7,624,615	
FECA	492,828	
Other Fenced	1,587,478	
Total Fenced		9,704,921 (38.48%)
Less Fixed		
Non-MRP Labor	6,748,243	
Utilities	2,442,881	
Purchased Svcs	2,966,837	
Messhall Cont.	812,725	
Total Fixed		12,970,686 (51.43%)
Flexibility		2,535,286 (10.09%)

TABLE 6.9. FISCAL YEAR 1991

2720 Direct Budget		27,737,241
Less Fenced		
MRP Floor	6,598,985	
FECA	409,409	
Environmental	878,873	
DoD Drug Prog.	26,743	
Child Dev. Ctr.	333,940	
Other Fenced	3,296,537	
Total Fenced		11,544,487 (41.62%)
Less Fixed		
Non-MRP Labor	6,657,600	
Utilities	2,083,637	
Purchased Svcs	4,057,189	
Messhall Cont.	697,858	
Total Fixed		13,496,284 (48.66%)
Flexibility		2,696,470 (9.72%)

TABLE 6.10. FISCAL YEAR 1992

2720 Direct Budget		23,821,485
Less Fenced		
MRP Floor	6,901,082	
FECA	449,173	
Environmental	1,016,402	
DoD Drug Prog.	36,562	
Child Dev. Ctr.[1]	0	
Other Fenced	2,035,275	
Total Fenced		10,438,494 (43.82%)
Less Fixed		
Non-MRP Labor	6,642,576	
Utilities	2,707,914	
Purchased Svcs	3,309,631	
Messhall Cont.[2]	284,184	
Total Fixed		12,944,305 (54.34%)
Flexibility		438,686 (1.84%)

[1] Child Development Center transferred to Subhead 2780 in FY 1992.

[2] Messhall contract discontinued for third and fourth quarters of FY 1992 due to insufficient funding.

9. Analysis of Data for MCAS, Kaneohe Bay

Although there is fluctuation in the 2720 Direct Budget amounts, the unmistakable trend is a decrease in top-line budgets. This trend would be much clearer if FY 1991 could be removed from the analysis. This, of course, is not possible, but it should be noted that some Desert Shield/Desert Storm (DS) funding may still be included in the total for 1991. We attempted to remove this funding from the data for all three installations, but the designation of DS expenses was not as clear-cut for Kaneohe Bay and Camp Pendleton as it was for El Toro.

Nonetheless, Figure 6.4 illustrates that despite the fluctuation in 2720 direct funding, there has been closure between the top-line budget and required spending. This closure has resulted in the downward trend for total flexibility exhibited in Figure 6.5.

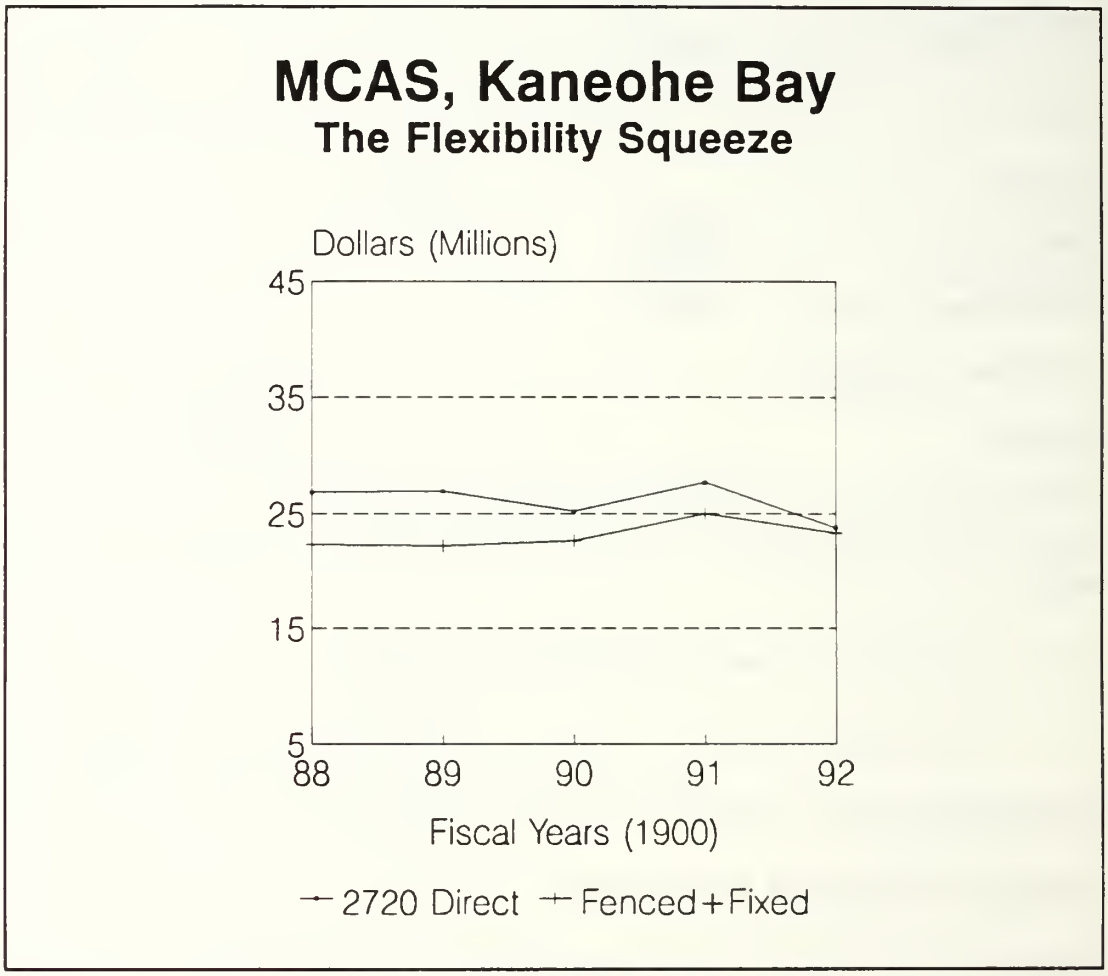

Figure 6.4

In addition, by studying Tables 6.6 through 6.9, it is evident that flexibility as a percentage of top-line budget has been following a distinctive downward trend from FY 1989 to 1992.

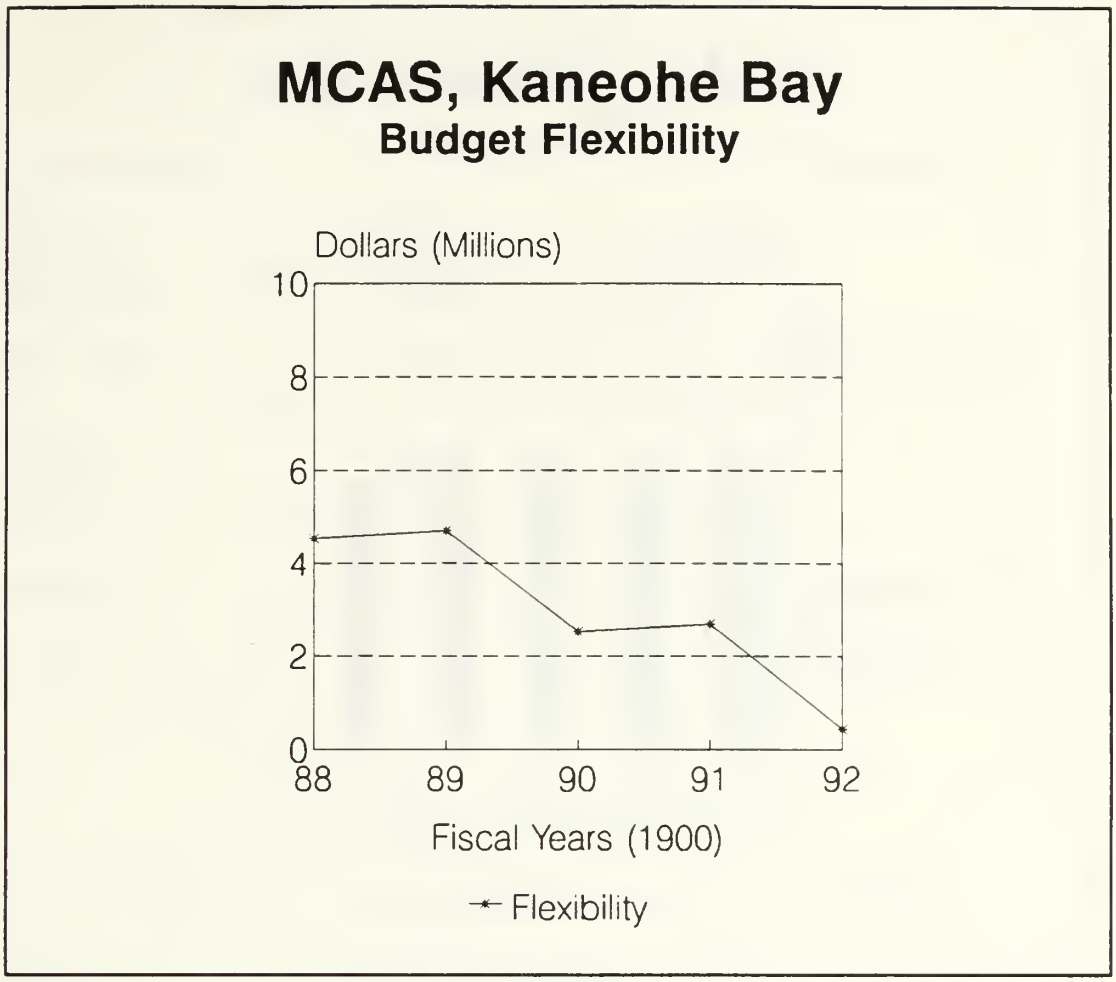

Figure 6.5

As with El Toro, the civilian labor force has been reduced from a FY 1988-1991 average of 344 to 325 in FY 1992. This occurred over a five year period when total base operations labor costs (including MRP) decreased by only six percent in real terms, and grew by approximately 12 percent in current dollars. Again, 11 of those 325 billets are new child care billets, so the actual labor force available for base operations has shrunk considerably within the last year. The *total* labor costs in current dollars and their respective employment levels are illustrated in Figure 6.6.

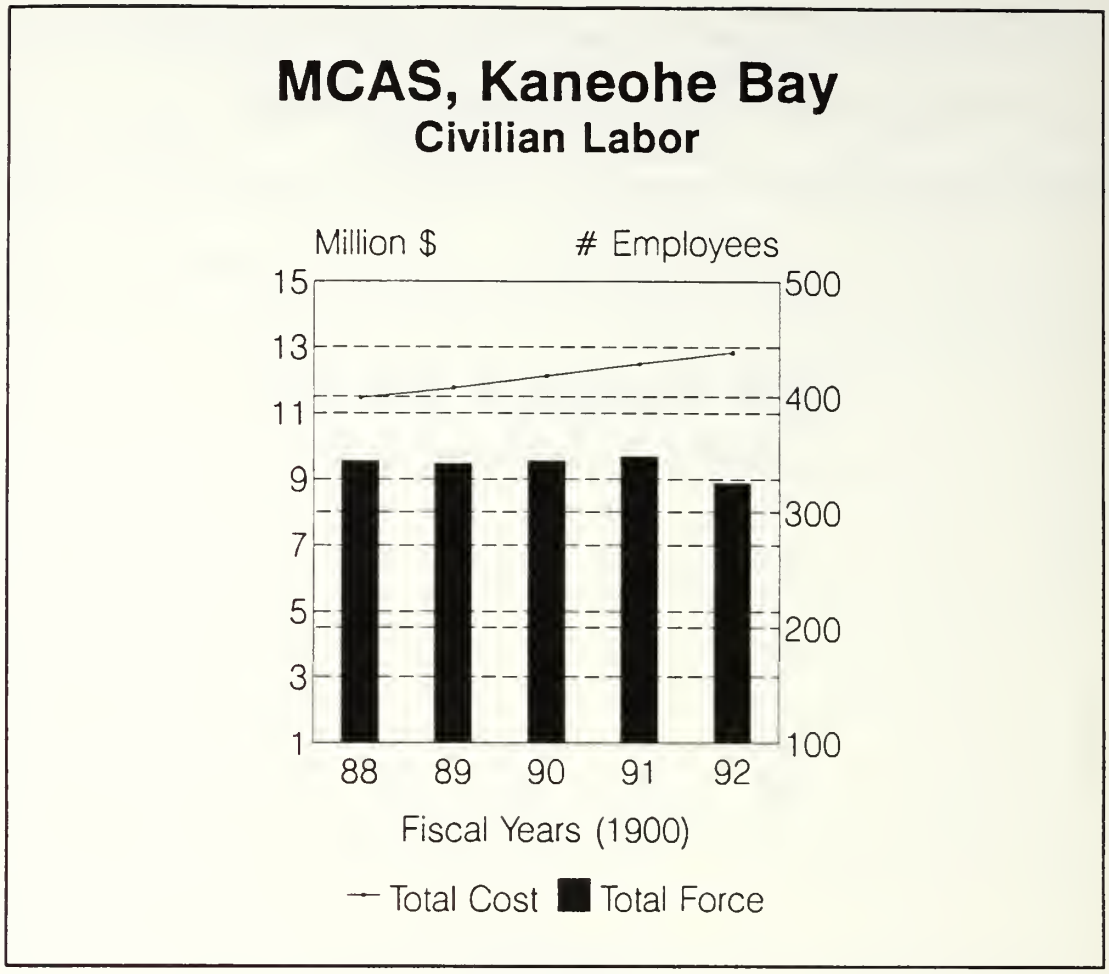

Figure 6.6

Despite the fact that the data from Kaneohe Bay do not support our position as distinctly as the data from El Toro, the trends sustain our assertion that budget flexibility is, in fact, decreasing at that installation as well.

10. Data for MCB, Camp Pendleton

The final installation we studied was MCB, Camp Pendleton. Camp Pendleton lies somewhere in between El Toro and Kaneohe Bay in terms of the support it provides for our thesis.

TABLE 6.11. FISCAL YEAR 1988

2720 Direct Budget		89,060,099
Less Fenced		
MRP Floor	27,019,000	
Other Fenced	7,946,916	
Total Fenced		34,965,916 (39.26%)
Less Fixed		
Non-MRP Labor	28,370,755	
Utilities	15,160,164	
Purchased Svcs	5,579,591	
Total Fixed		49,110,510 (55.14%)
Flexibility		4,983,673 (5.60%)

TABLE 6.12. FISCAL YEAR 1989

2720 Direct Budget		83,324,755
Less Fenced		
MRP Floor	20,993,180	
Other Fenced	11,037,934	
Total Fenced		32,031,114 (38.44%)
Less Fixed		
Non-MRP Labor	29,799,615	
Utilities	12,770,674	
Purchased Svcs	4,565,344	
Total Fixed		47,135,633 (56.57%)
Flexibility		4,158,008 (4.99%)

TABLE 6.13. FISCAL YEAR 1990

2720 Direct Budget		82,030,996
Less Fenced		
MRP Floor	22,233,413	
FECA	2,805,583	
Other Fenced	7,030,821	
Total Fenced		32,114,817 (39.15%)
Less Fixed		
Non-MRP Labor	26,355,832	
Utilities	12,725,005	
Purchased Svcs.	4,104,098	
Messhall Cont.	5,262,381	
Total Fixed		48,447,316 (59.06%)
Flexibility		1,468,863 (1.79%)

TABLE 6.14. FISCAL YEAR 1991

2720 Direct Budget		83,058,628
Less Fenced		
MRP Floor	17,965,167	
FECA	2,799,569	
Environmental	2,800,630	
DoD Drug Prog.	396,268	
Child Dev. Ctr.	700,293	
Other Fenced	6,610,679	
Total Fenced		31,272,606 (37.65%)
Less Fixed		
Non-MRP Labor	23,359,362	
Utilities	11,759,428	
Purchased Svcs	9,607,382	
Messhall Cont.	5,446,906	
Total Fixed		50,173,078 (60.41%)
Flexibility		1,612,944 (1.94%)

TABLE 6.15. FISCAL YEAR 1992

2720 Direct Budget		77,266,173
Less Fenced		
MRP Floor	17,837,067	
FECA	2,855,980	
Environmental	5,072,200	
DoD Drug Prog.	458,344	
Child Dev. Ctr.[1]	0	
Other Fenced	6,960,289	
Total Fenced		33,183,880 (42.94%)
Less Fixed		
Non-MRP Labor	22,492,192	
Utilities	7,399,652	
Purchased Svcs	4,614,448	
Messhall Cont.	5,321,872	
Total Fixed		39,828,164 (51.55%)
Flexibility		4,254,129 (5.51%)

[1] Child Development Center transferred to Subhead 2780 in FY 1992.

11. Analysis for MCB, Camp Pendleton

For Camp Pendleton, the 2720 Direct Budget is clearly in real decline for the entire period from FY 1988 to 1992, as shown in Figure 6.7. The slight rise in FY 1991 could be due to the fact that the 2720 figure for Camp Pendleton, like Kaneohe Bay, may still contain some undiscovered DS funds. Be that as it may, the downward trend continues in FY 1992. Overall, Camp Pendleton 2720 funding exhibits a real decline of over 13 percent from FY 1988 to 1992.

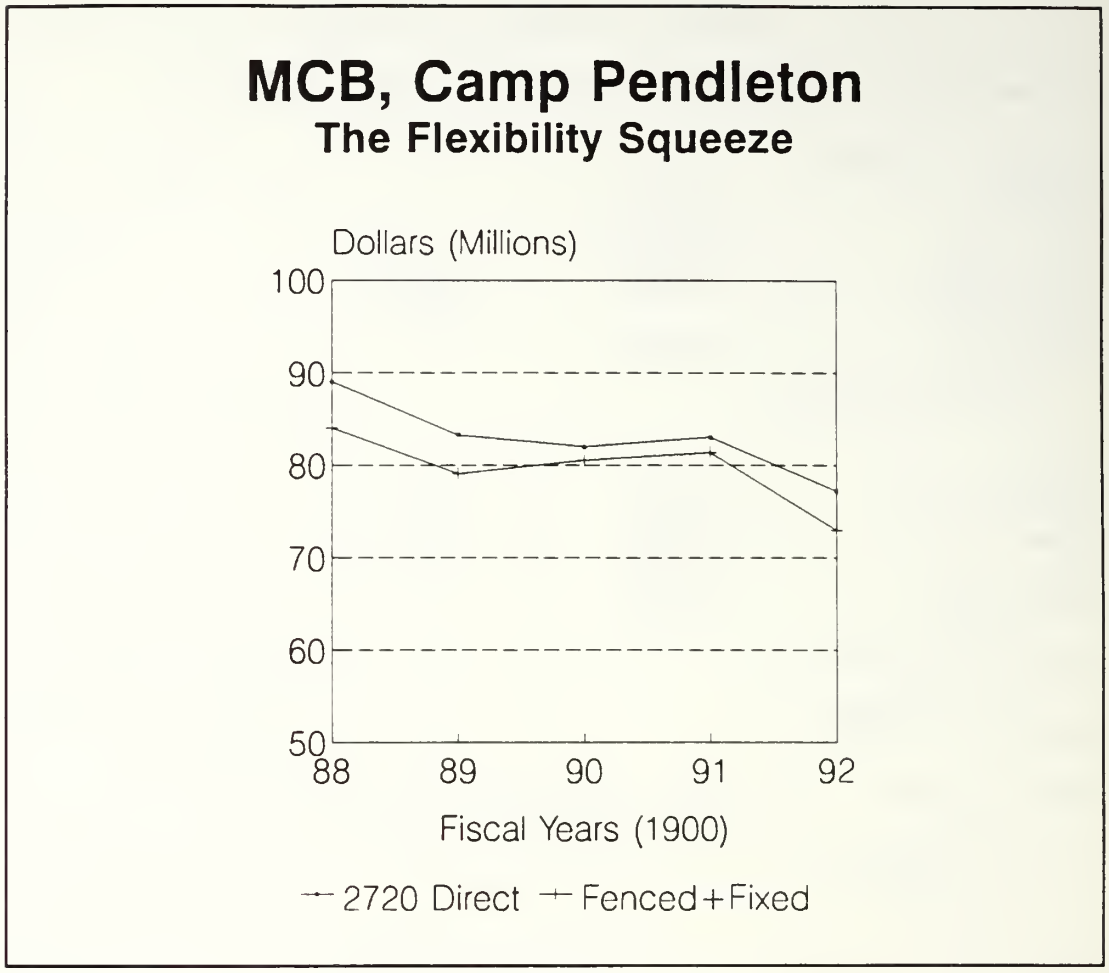

Figure 6.7

The fluctuation in total required spending for Camp Pendleton, also exhibited in Figure 6.7, is somewhat deceptive. The sharp drop in both MRP and Utilities between FY 1988 and FY 1989 reflects the fact that this was a period of consolidation and reduction for Camp Pendleton. Several small units were combined, and the Seventh Marine Regiment moved out to the Marine Corps Air Ground Combat Center in Twentynine Palms, California.

In addition, the base operations civilian workforce was reduced by almost 15 percent between FY 1988 and 1992—from 1566 to 1339 (this reduction includes the establishment of 21 child care billets). The majority of this reduction was the result of a penalty imposed by HQMC for failing to conduct a directed commercial activities study. Finally, in FY 1992 Camp Pendleton actually found a way to increase its own flexibility by obtaining reimbursement from tenant organizations for utilities and other base services. In fact, the reimbursements for utilities in 1992 totaled $3,253,626 in constant FY 1988 dollars. If these reimbursements had not been obtained, total flexibility for FY 1992 would have been reduced to $1,000,503 or 1.29 percent of the top-line budget.

Considering the above influences, the data obtained from Camp Pendleton are not incongruous with the premise of decreasing budget flexibility. Figure 6.8 indicates that total flexibility was steadily decreasing prior to FY 1992. It would have continued to decline had it not been for the initiative of the Commanding General and his staff in making a concerted effort to maximize reimbursement for all support services provided to tenants. What cannot be overlooked, however, is that the increased flexibility generated through the use of reimbursibles is temporary. Once a portion of services has been identified as generating reimbursable funds, the direct funding for that portion will be removed from the budget base for the following year.

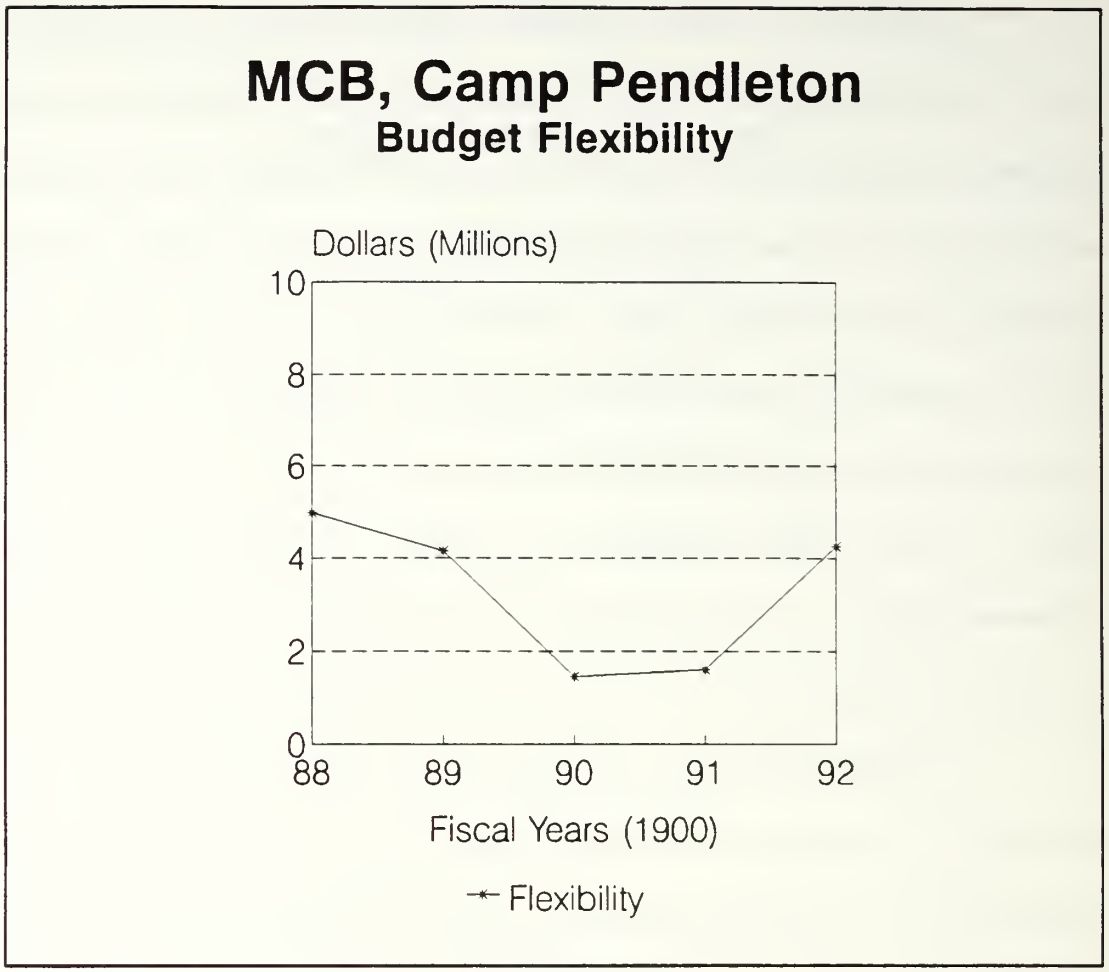

Figure 6.8

Overall, the trends at Camp Pendleton support the thesis of decreasing funding and increased requirements. Although the evidence is not as readily apparent from the graphic analysis presented above, after considering the underlying factors that have influenced the 2720 funding category, it becomes discernable.

D. THE FINAL ANALYSIS

1. Total Fenced

It is obvious from the data that the number of fencing categories at the installation level has grown tremendously between FY 1988 and FY 1992. A closer look shows that for all three installations, the *non-MRP* fencing of funds experienced a dramatic real increase over the period of the study. For both El Toro and Kaneohe Bay, the increase was also evident in the Total Fenced category. Camp Pendleton is the only installation which does not exhibit this phenomenon, but its MRP floor was drastically reduced after FY 1988 as stated above. For Camp Pendleton there was a constant real increase in the Total Fenced category from FY 1989 to 1992.

2. Total Fixed

Not as evident as the rise in Total Fenced funds is the trend in the Total Fixed category. In the constant dollar analysis above, only El Toro showed an increase in Total Fixed costs between FY 1988 and 1992. However, both El Toro and Kaneohe Bay showed large increases in *current dollar* fixed costs—23.44 percent for El Toro and 10.29 percent for Kaneohe Bay. The small decline of 3.34 percent for Camp Pendleton may be entirely accounted for by the savings in utilities mentioned in the discussion of the data for Camp Pendleton.

3. Required Spending Versus 2720 Funding

In examining the total required spending (Total Fenced plus Total Fixed) versus total 2720 funding, the *current dollar* analysis is even more dramatic than the constant dollar analysis previously presented. El Toro saw an increase in total required spending of 53.48 percent over the period FY 1988-1992. Over the same period, total 2720 funding increased by only 32.54 percent. At Kaneohe Bay, the increase in total required spending for the FY 1988-1992 period was 18.52 percent, while 2720 funding increased by only 5.52 percent. Finally, Camp Pendleton's current dollar growth in required spending was closest to its 2720 funding increase. Required spending grew by 3.5 percent from FY 1988 to 1992, while 2720 funding went up by 3.4 percent. Again, as indicated in the analysis of Camp Pendleton, there are many underlying reasons to explain the narrow gap. The current dollar relationships developed here appear in Figures 6.9 through 6.11.

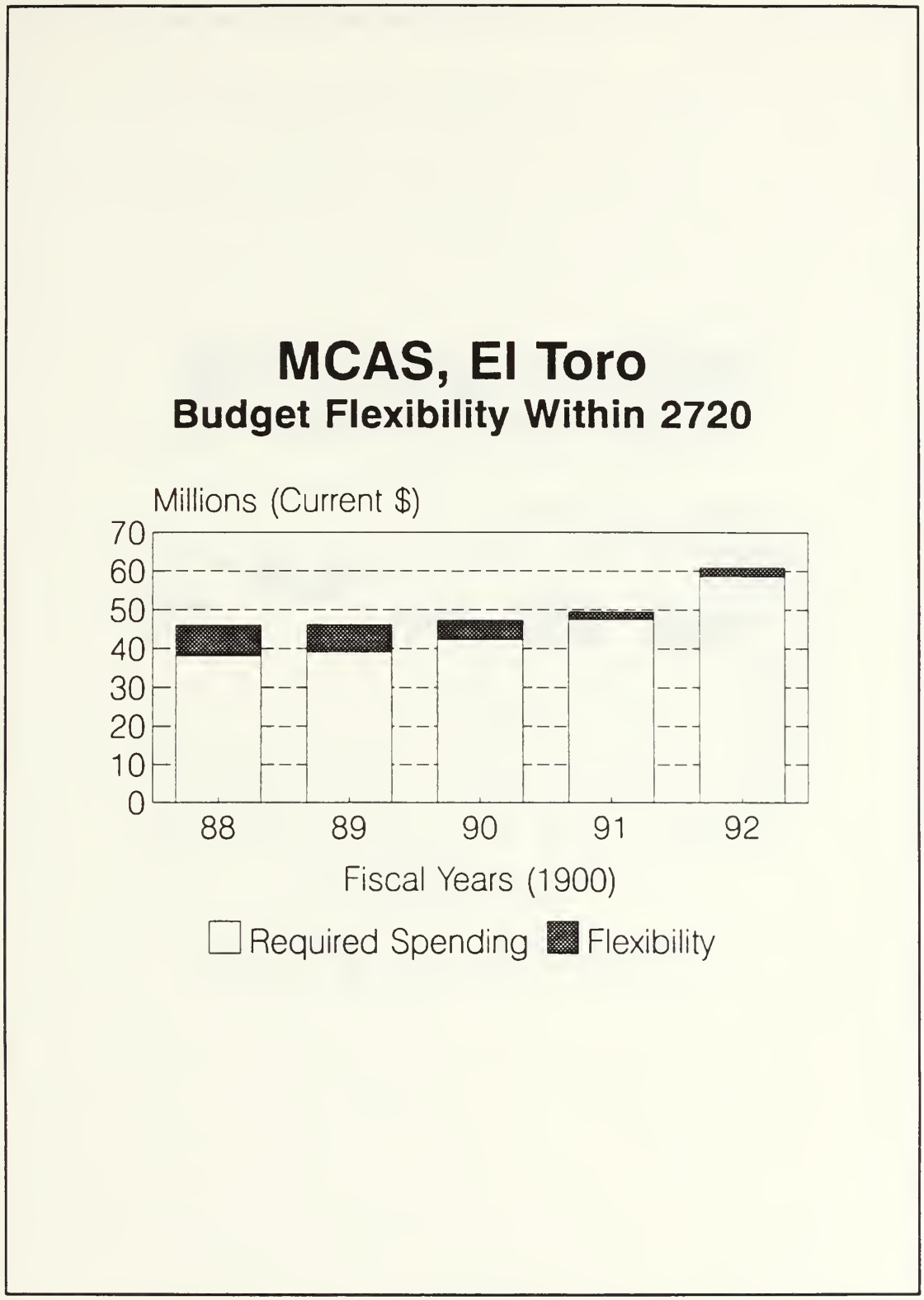
MCAS, El Toro
Budget Flexibility Within 2720
Millions (Current $)
70
60
50
40
30
20
10
0
88
89
90
91
92
Fiscal Years (1900)
Required Spending
Flexibility

Figure 6.9

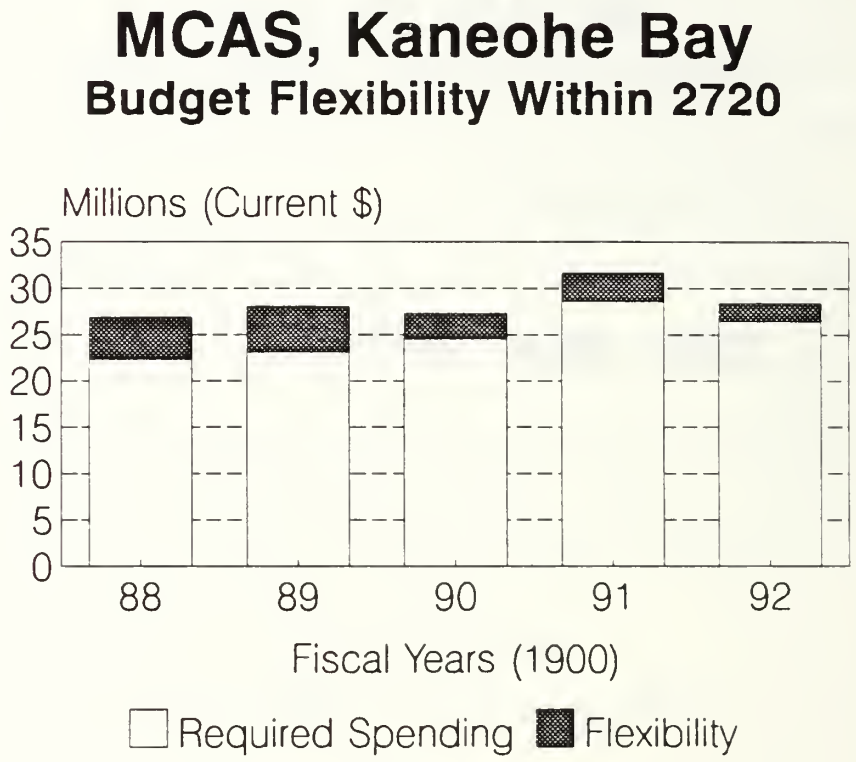
MCAS, Kaneohe Bay
Budget Flexibility Within 2720
Millions (Current $)
35
30
25
20
15
10
5
0
88
89
90
91
92
Fiscal Years (1900)
Required Spending
Flexibility

Figure 6.10

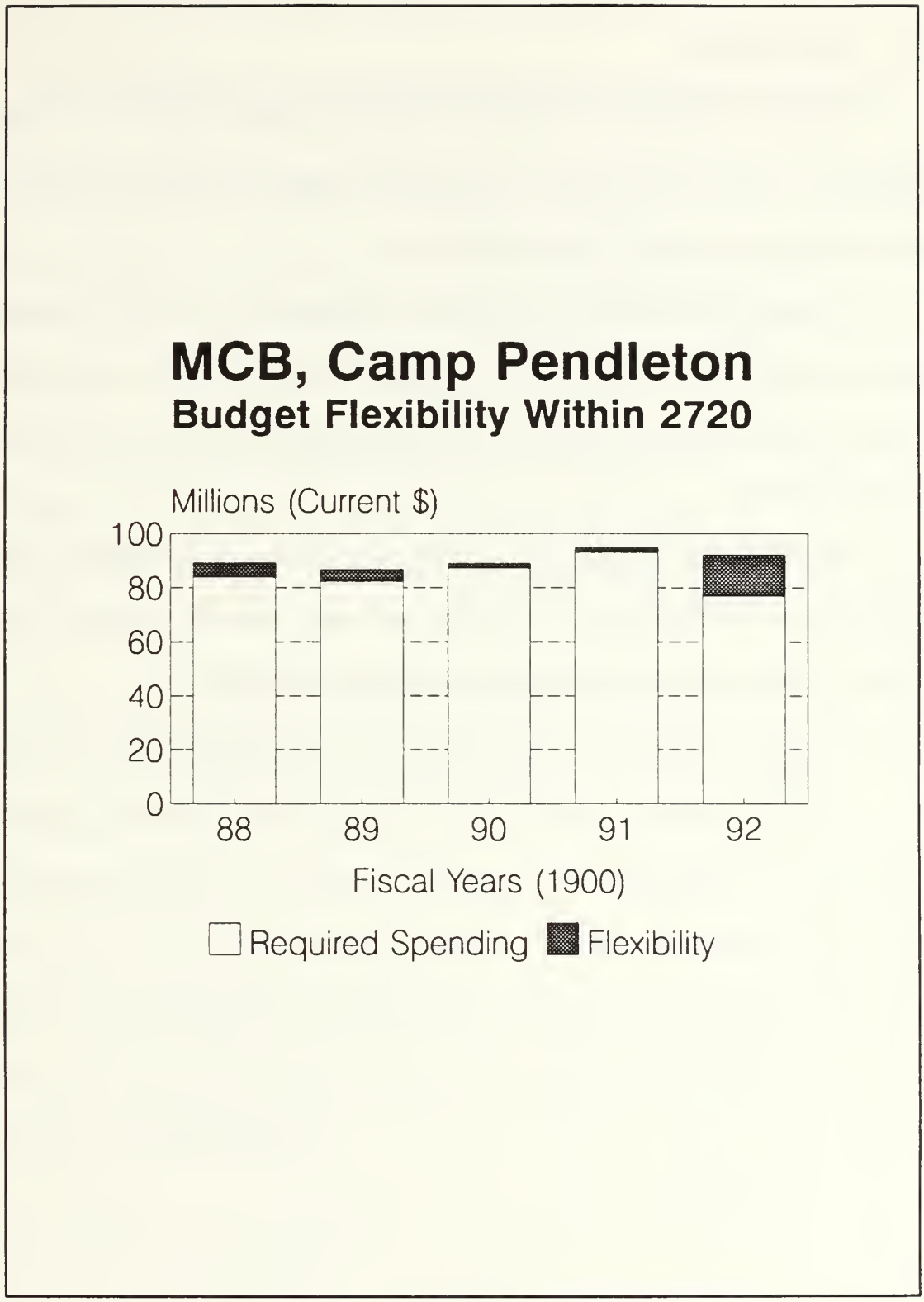
MCB, Camp Pendleton
Budget Flexibility Within 2720
Millions (Current $)
100
80
60
40
20
0
88
89
90
91
92
Fiscal Years (1900)
Required Spending
Flexibility

Figure 6.11

E. CONCLUSION

Whether measured in current or constant dollars, there is substantial evidence to support the thesis of decreasing budget flexibility for installation commanders among the subject installations.

The constant dollar analysis exhibits the real decline in budget resources, coupled with a general real increase in required spending. The current dollar analysis clearly shows the nominal decrease in budget flexibility over the period FY 1988 to 1992.

The following chapters will discuss the impact of decreasing budget flexibility, recommendations for dealing with and possible solutions to the problem, and our conclusions about the study and its results.

VII. THE SIGNIFICANCE OF DECREASED BUDGET FLEXIBILITY

The quantitative analysis of 2720 direct funding presented in the previous chapter identified a generally downward trend in budget flexibility and an irrefutably low level of flexibility as measured in both actual dollars and as a percentage of total 2720 direct funding. In this chapter, we supplement these findings with a qualitative cataloging and discussion of the impact of this reduced flexibility—both theoretical and actual. In our evaluation of this impact, we concentrate on the impact of reduced budget flexibility without regard to the source or cause.

We will first identify the theoretically expected impact of an overly controlled (inflexible) budget by presenting the published findings of various budgetary research. Following this, we will present specific instances of the documented impact of reduced flexibility on the commander, the installations studied, and the Marine Corps in general. Our impact assessment will also include an extrapolation of our findings to present what we term the projected impact—those second-order impacts that result from attempts to combat decreasing budget flexibility.

A. THE THEORETICAL IMPACT OF LOW-FLEXIBILITY BUDGETS

In exploring the literature on budgetary control, we found that an organization's entire budget process, or budget control system plays a major role in determining that organization's destiny. The budget control system, a far reaching influence throughout the entire organizational spectrum, can be considered multi-dimensional. One critical dimension is that of motivation.

1. Motivation

As outlined in Chapter II, if properly established, a budget can support a financially healthy unit and can motivate individuals within the organization towards common goals and optimum performance. According to Kamin and Ronen:

> The budget, ...the skeleton of the control system, *reflects the organization's goals* and is therefore used as both a yardstick for future planning and a performance standard.... A successful budgetary system also *motivates managers* by conveying expectations of superiors... [Ref. 3:p. 471]. (Emphasis Added.)

We claim that one major negative impact of the existing inflexible budget control system is the reduction of motivation. The consequences of reduced motivation include a negative attitude towards the budget process, suboptimum performance of both the individual and the unit, and a resultant inefficient allocation of resources within the DoD.

Consider the impact on the installation commander, a Colonel or above, who has received extensive training, education, and experience in the "rise to the top." Once at the top however, the commander is burdened with the responsibility of

the entire unit but is empowered with only a small fraction of the financial assets available to accomplish the mission. We presented this situation in Chapter V when we referred to the frustration felt by the commander at the outset of the fiscal year when saddled with a budget riddled with numerous constraints. When provided with seemingly inadequate resources to accomplish the mission, an organizational leader would also probably question the amount of trust and confidence bestowed by higher headquarters.

It follows, then, that the commander's motivation to optimize uncontrollable situations would be negatively affected. The important motivational role played by the budget system cannot be overlooked. Otley highlights a budget's motivational role as "central to the effective functioning of a budget system" [Ref. 39:p. 25], and we agree. We now examine the findings on the level of control within a budgetary system and how this level interacts with motivation.

Kamin and Ronen assert that top management uses the budget as an uncertainty reduction mechanism with varying degrees of structure. A less structured budget provides a range of preferences while a more structured budget imposes finite numbers [Ref. 3:p. 471]. These authors further state:

> In using budgets to filter uncertainty, top management must maintain a delicate balance, since *the more structured budget decreases the flexibility needed to motivate subordinates,* while the less structured budget might be too ambiguous to motivate subordinates toward goal congruence. A budgetary system can be *dysfunctional* when it does not motivate goal congruence [Ref. 3:p. 472]. (Emphasis added.)

Faced with an inflexible, highly structured budget system, military installation commanders face exceptional challenges. With higher headquarters identifying precise goals without providing adequate resources for the unique goals of the local commander, the resulting incongruence spawns a decreased motivation to support the budget system. We now turn to an examination of budgetary slack as one symptom of a dysfunctional, overly controlled, inflexible, budget system.

2. Budgetary Slack

Combining the works of Kamin and Ronen with Onsi, we define budgetary, or organizational, slack as "allocations of resources in excess of what is necessary to maintain the organization" [Ref. 3:p. 472] which "arises from imperfections in the organizational process of resource allocation" [Ref. 40:p. 535]. According to Merchant, "Onsi found a positive relationship between manager's needs to create budgetary slack and what he called 'an authoritarian top management budgetary control system'" [Ref. 41:p. 202]. The high level of fencing present in installation budgets is indicative of the authoritarian and overly controlled budget environment currently faced by installation commanders.

Merchant goes on to say that, "the amount of slack in an organization varies with the business cycle; it is built up during boom times and used as a stabilizing influence in down periods" [Ref. 41:p. 201]. As presented in Chapter III, during the late 1970s and most of the 1980s, DoD experienced the "boom times" of the Carter/Reagan build up, and is now experiencing one of the most profound

"down periods" in its history. The authoritarian budgetary system, coupled with the boom and bust DoD "business cycle", has resulted in a certain amount of slack in installation budgets. Further, the presence of some remaining slack in the O&M accounts may be evidenced by the fact that O&M appropriations have not decreased as rapidly as other major DoD accounts during the current drawdown.

However, the existence of budgetary slack is not necessarily bad. Merchant cites various authors who have noted "that slack can be used to absorb uncertainty; it provides freedom from short-term commitment that can be useful in dealing with a lack of predictability" [Ref. 41:p. 203]. Onsi notes that the value of slack "depends on the manner of its utilization, since it provides a source of funds that may not otherwise be available or approved because of scarcity of resources" [Ref. 40:p. 535].

In addition to helping the commander cope with uncertainty, slack enhances flexibility by "providing a pool of emergency resources" for emerging requirements. With the low amounts of flexibility as documented in Chapter VI, any slack resident in installation budgets provides a significant increase in flexibility. And, as argued in Chapter II, greater flexibility is vital to efficient allocation of resources at the installation level. For this reason, attempts to minimize slack in DoD budgets are counterproductive. The combination of increasing budgetary restrictions and the attack on budget slack promotes a "whatever it takes" attitude among those battling for scarce resources. This

attitude, and the need to accomplish the mission, can push individuals into budgetary gamesmanship and misrepresentation.

3. Gamesmanship

Since financial resources are limited, there will always exist some degree of budgetary gameplaying. It is our contention that scarcity of resources and decreasing flexibility result in increased gameplaying at all levels in the DoD budget hierarchy. Gameplaying can be defined as a commander's strategy for manipulating the budget system to gain maximum access to available resources. Gameplaying comes in many forms, both simple and devious. Ironically, gameplaying has the potential to reduce flexibility even below the initial level of flexibility that inspired it. Regardless of the type of game, commanders caught in the act will always suffer a loss of credibility. This reputational blemish may yield the additional effect of undermining a commander's ability to gain resources for legitimate needs. Some examples of gameplaying which we will discuss include brinkmanship, padding the budget, spending up to the allocation limit, underground operations, and counterbudget systems.

Brinkmanship may involve commanders in "gold watch" tactics in order to avoid severe budget cuts. In other words, commanders make claims that projected funding levels are inadequate to permit the continuation of a program of known importance to higher headquarters. With this threat of terminating such a program, commanders hope to procure funding for other, lower priority programs which were not placed on the proverbial chopping block.

Another prevalent game is padding the budget. This occurs when commanders know from past experience or future expectations that a certain percentage of every budget request will be cut or denied by higher headquarters. Consequently, the budget submission will be formulated to offset this expected reduction. Another, more innocent form of padding, is incrementalism. This inefficient approach to budgeting frequently ignores possible savings due to innovation or re-engineering and simply adds an arbitrary percentage onto the prior year's budget base.

In discussing the budget base, one cannot ignore the phenomenon of spending up to the allocation limit. This game involves the commander's effort to maintain a budget base by spending every dollar authorized whether the expenditure is necessary or not. The pressures to obligate 100 percent of available funds are numerous. First, failure to execute the budget as planned reflects negatively upon the commander's managerial skills. Second, any unobligated funds will not only be recouped but in all probability will be removed from the budget base for the subsequent year. Third, he who spends the fastest is the first to receive remaining unobligated funds of contemporary commanders, or any surplus in the reserve of the next highest budget echelon, as that echelon itself attempts to avoid underexecution. This so called "spending for the sake of spending" will rarely, if ever, result in the efficient allocation of resources.

Another potential budget game may be termed Underground Operations. This is a game in which a commander manipulates the accounting

system to hide a necessary or desired project within a perhaps inappropriate funding category. If this is done, funding will be diverted to a project that would not otherwise receive sufficient funding within the proper category. This game may involve a violation of the law, and if so, this represents the poisonous herbs alluded to at the close of Chapter V. If the pressure of decreasing flexibility is great enough, some commanders may see no other alternative.

The final game considered here is the Counterbudget Systems game. As Burrowes and Harvey assert, one consequence of decreasing budget flexibility "is the use of evasive tactics requiring a greater number of information-gathering and control systems. This in turn tends to create counter-groups" [Ref. 42:p. 12]. Essentially, commanders must gather together large staffs devoted to generating effective justification for the programs and projects for which they desire funding. Not only does this tie up valuable resources, but it virtually ensures that the commander with the most prolific and eloquent justification staff will obtain a larger share of the budget pie than the commander who either doesn't play the game, or has a smaller, less-effective staff.

While the section above outlines some consequences that result from decreased budget flexibility, the next section presents the actual, documented impact discovered through our research.

B. DOCUMENTED IMPACT OF DECREASED FLEXIBILITY

This section presents several actual events that substantiate our contention that commanders do not possess adequate flexibility to operate their installations. The information introduced here has been obtained from interviews with installation commanders and comptrollers. We also introduce material selected from other impact-related financial correspondence.

1. The Civilian Labor Problem

One of the largest single spending categories for any installation commander is civilian labor. This is also the source of some major flexibility problems. Much of the problem which has developed in the area of civilian labor can be summarized in the following quote from a Commanding General, COMCABWEST white paper to the Fiscal Director of the Marine Corps.

> COMCABWEST's 'top line' funding has increased just 2.3% from FY-89 to FY-92 ($72.6M to $74.3M). Yet, during the corresponding period, the cost of the direct-fund civilian work force that is 2.4% smaller (1041 today versus 1067 in '89) has risen 22% ($39.3M versus $32.2M). Further, included in our smaller FY-92 work force are 24 mandatory-inserted Child Development Center billets for which the cost of 21 had to be absorbed from existing Material and Services dollars (about $.7M). As a percent of total O&MMC funds available in the Command's budget base, the civilian work force has risen from 44% in FY-89 to 53% today [Ref. 43].

While civilian labor costs have grown to over 50 percent of the O&MMC budget at many installations, the portion of the budget available for the materials and services (M&S) necessary to enable those civilian employees to work has decreased significantly—from 56 percent in FY 1989 to 47 percent in FY 1992 for COMCABWEST [Ref. 43]. In other words, the expensive civilian work force in

general is made less efficient by having fewer materials at hand to perform its mission. This situation is what Don Angel, Comptroller at COMCABWEST, refers to as the "Civilian Work Force/Materials and Services Inversion" [Ref. 44].

Another impact in the area of civilian labor is that commanders are increasingly likely to allow civilian billets to lapse. As the costs grow, civilians who retire or transfer are not immediately replaced. This is one way in which commanders can save money, but the mission which was performed by personnel in those billets does not disappear. The commander simply chooses to delay performance of the mission or pass the burden on to remaining employees or military personnel. As Colonel R. R. Crawford, Commanding Officer of Kaneohe Bay puts it, "Commanders will lose flexibility, responsiveness, and timeliness with less civilian workforce, which most likely will significantly increase the cost of operating USMC installations" [Ref. 45].

A discussion of the civilian labor problems must address the issue of under-execution of civilian payroll. The current Manage to Payroll (MTP) system involves an annual Letter of Authorization (LOA) which sets forth ceilings and floors on the amount of money which can be expended on civilian payroll, as well as the end-strength of the installation work force. Despite the fact that no one at any of the subject installations could explain how the figures on the LOA were derived, nor what relationship they bore to the actual figures for civilian payroll, they are still considered to be relatively binding. Under-execution means that

civilian labor funds will be withdrawn from the budget base in the subsequent year.

A commander who makes the hard choices to generate some added flexibility during a given year may be penalized in the following year. Even worse, as suggested in Chapter II, a new commander can be penalized for the actions of a previous commander. Unfortunately, this is not the only significant problem resulting from decreased flexibility.

2. Service Contracts

One area closely related to the civilian labor problem is the purchase of commercial services. Due to decreasing work forces and stable or increasing mission requirements, installations must increasingly purchase services from the private sector. For Camp Pendleton, the purchase of services increased from approximately $28 million to just under $40 million dollars between FY 1988 and FY 1991 [Ref. 46]. This increase of 42 percent occurred during a period when the total O&MMC funding for Camp Pendleton only increased by 15.21 percent [Ref. 46].

While the purchase of services is increasing, this is not likely to be the most efficient allocation of available resources. Various federal contracting regulations, some designed to ensure support for small and minority-owned businesses for example, may also ensure that installation commanders pay more for the materials and services that they must procure from the private sector than they would if they could choose any available supplier. As Colonel Crawford

decries, "Diminished resources indicates (sic) bases and stations should be cutting personnel, however, in-house labor to provide these services is significantly cheaper than buying services from an outside source" [Ref. 45]. Thus, it may be more efficient for the military to fully fund the civilian workforce to correspond to the assigned mission, rather than cutting back and forcing commanders to purchase services on the outside.

3. The Losing Fiscal Proposition of Child Care

The enactment of the Military Child Care Act of 1989 has had a far-reaching impact on the O&M account throughout DoD. As previously indicated in Chapters V and VI, Congress, OSD, and HQMC have mandated specific numbers of Child Care billets for each installation, and the Marine Corps has paid for the new requirement by transferring funds out of other base operations accounts. This transfer of funds has contributed significantly to the decrease in flexibility for installation commanders.

Added to this is the burden imposed by the fact that many Child Development Centers (CDCs) are not self-supporting due to mandated fee structures and attempts to keep the service affordable for junior enlisted members. El Toro, for example, has run a loss of $86,182.00 per month since October of 1991, and MCAS, Tustin, California has run a loss of $29,540.00 per month [Ref. 47]. This recurring loss can only lead to further transfers from the other base operations accounts.

One of the commonly voiced complaints against this phenomenon of robbing base operations to pay for the CDCs is that the Marines who have to work that much harder to make do with fewer M&S dollars are subsidizing, through their added effort, those Marines who have children. Certainly child care ranks very high in terms of quality of life for our Marines. But, the current policies on CDC funding favor one group at the expense of others.

4. Cancellation of Mess Attendant Contracts

In FY 1992, Kaneohe Bay cancelled their civilian mess attendant contract. In FY 1993, COMCABWEST may cancel mess attendant contracts at one or more of its subordinate commands. Camp Pendleton has already computed a temporary savings of up to $4.6 million if the majority of its mess attendant contracts are cancelled. These drastic measures have been taken in an attempt to temporarily increase the flexibility available to the commander.

The gain in flexibility may be illusory. Not only will the funds likely be removed from the budget base for the subsequent year, but unexpended funds for the current year could be recouped if justification for retention is insufficient. The real impact of this decision is felt in the area of readiness. As discussed later, the civilian mess attendants must be replaced by enlisted Marines, who are consequently unavailable to train or perform their primary missions.

5. Inability to Cover "Must Pay" Items

For FY 1992, MCAS El Toro identified significant deficiencies in covering such fixed cost categories as utilities ($1.5 million) and contracted services ($1.8 million) [Ref. 43]. Additionally, several of the comptrollers whom we have contacted at installations outside our study have also indicated that they are currently underfunded in areas including utilities. The fact that installation commanders cannot cover bills that must be paid, leaves open to question how much true flexibility remains, even within the budgets we have studied. As we indicated in Chapters V and VI, the amounts identified as flexible still must cover additional, legitimate expenses.

6. Administrative Use of Tactical Vehicles

One among many cuts that have been necessitated by the recent decline in budget flexibility was the reduction of the commercial vehicle fleet at Camp Pendleton. This cost saving measure is very similar to the cancellation of the mess attendant contracts. The savings will be removed from the budget base since the expense no longer exists. Also, the burden is passed on to the operational forces who must use their tactical vehicles for administrative matters. As with the cancelled mess contracts, this detracts from readiness because it increases the non-availability of tactical assets for operational missions.

7. Ignoring the Fences—Venturing into the Herbs

As stated in Chapter V, some fences are sturdier than others. Many of the centrally managed programs send "spending targets" down to the installation level, vice strictly inviolable fences. In theory, these targets represent what the program sponsors feel is the minimum or maximum spending necessary for proper execution of their programs. Several comptrollers interviewed indicated that decreasing flexibility has forced them in recent years to ignore the targets in certain categories of spending. Commanders and comptrollers realize that this could have a negative impact on future flexibility, but the fact that they continue to make minor adjustments between programs (not subheads) lends credence to the argument that greater flexibility is necessary.

C. PROJECTED IMPACT

1. Added Administrative Burdens

One impact of decreased flexibility via increasing control over installation budgets through centrally managed programs relates to the organizational structure established to support this central management.

When a large, highly decentralized organization that is spread out across a vast geographic area tries to create and centrally control operations, there will be an impact upon the overall organization. In the case of the Marine Corps, we have already identified the growth of its centrally managed programs to 37 plus. Consider the fact that each of these programs contains a staff of military and

civilian individuals whose primary function is to track the financial, legislative, and policy actions within and relating to its specific program. These requirements for passing policy information to the lower levels and receiving budgeting and accounting information from the lower echelons drain precious resources that could otherwise be available to the installations themselves.

As centrally managed programs have grown both in number and in the total amount of appropriated and expended dollars, so has the complexity of managing this system. Commanders have become increasingly burdened with maintaining more detailed and more complex accounting records. Add to this the fact that the newly implemented SABRS system is far from adequate to support the budgeting and accounting demands placed on the commander. Literally every installation we visited reverberated with dissatisfaction for the SABRS system. Not only does the current inadequacy of the SABRS system negatively affect the motivation of those wrestling with it, but according to those we interviewed, the current system is not capturing accurate accounting data upon which future funding decisions will be made. [Ref. 48].

The subsequent impact of these increased administrative burdens has several dimensions. In addition to the draining of resources (time , money, and personnel) away from the field and into the headquarters, the diminished motivation of those working within the budget control system, and the generation of inaccurate accounting data, this burgeoning bureaucracy also serves to further undermine the authority, trust and confidence of the commanders who manage

the installation and lead its people. The commander continually winds up in the predicament of having to request authority that should be inherent in the commander's position. This further frustrates and demotivates both the commander and installation staff.

2. Morale, Welfare, and Recreation

Morale Welfare and Recreation (MWR) is one area in which the commander can provide a significant contribution to the quality of life and morale aboard the installation. From aerobics to yachting, MWR encompasses almost every sports and hobby program conceivable.

For budgetary and legislative control, MWR is divided into four major categories: (1) Mission Sustaining, (2) Basic Community, (3) Enhanced Community, and (4) Business Activities. Each of these categories is filled with distinctive regulations and restrictions. Currently commanders are faced with MWR ceilings, limited direct appropriated fund support and restrictions on the reimbursement of salaries of non-appropriated fund instrumentalities (NAFI). As a result, many MWR services are being reduced, curtailed or forced to charge user fees.

Tying the budgetary hands of the local commander with centralized MWR regulations reduces the possibility of operating a program tailored to suit the needs of the Marines who serve at the installation. Denigration of local flexibility limits the commander's ability to maximize the program's potential in terms of quality of life increases generated by the program, and also in terms of

the cost-effectiveness of the overall program. Since diminished services from MWR can undermine the morale which they were designed to enhance, and poor morale can adversely affect performance, it is possible to extend the impact of declining MWR assets to the issue of reduced readiness.

3. The Impact on Readiness

Overall, readiness is the most important issue in the Marine Corps. Readiness can only be guaranteed by the outfitting, staffing and training of combat units. Each of these readiness variables is directly related to the O&M budget. We have found, however, that although the operational, or Fleet Marine Force (FMF), units are the highest priority driving force within the Marine Corps, they are often among the first to be negatively affected by the restriction of installation budgets.

As previously mentioned, cancellation of mess attendant contracts and the reduction of commercial vehicle fleets have a direct impact on the readiness of the FMF. Perhaps the implementation of the Defense Business Operations Fund (DBOF) will address the fact that the operating forces are increasingly dependent on a budget infrastructure that has installation commanders barely keeping their heads afloat in the support of their installations, much less performing their primary mission of support to the FMF. This will be analyzed in the next chapter.

D. CONCLUSION

Throughout our research, we interviewed commanders, comptrollers and budget officers committed to the concept of budget efficiency. The data in Chapter VI show that the flexibility necessary to achieve this budget efficiency being reduced at the installation level. The result, as documented in the previous chapter, is the creation of a profound set of constraints upon future efficiency and flexibility in military budget execution.

VIII. THE DEFENSE BUSINESS OPERATIONS FUND

The Defense Business Operations Fund (DBOF) is one of the newest initiatives within DoD. This chapter provides an analysis of the projected impact of the DBOF on the budget flexibility of the installation commander. We begin by building a foundation of the basic DBOF concept, its design, intended goals, and planned implementation. We then present an analysis of the impact of this new concept on the installation commander's budget flexibility.

A. BACKGROUND

Under the current (pre-DBOF) system, operating units (customers), are not actually "charged" for services they receive from their host installations, regardless of volume, and there is no system for tracking the total costs involved. This system creates an incentive for the supported units to over-consume services, and for supporting installation commanders to overutilize in-house assets because "true" total costs are not considered. Furthermore, the concept of economic opportunity costs is disregarded. The end result is overconsumption and the inefficient allocation of resources.

In an effort to increase the efficiency of resource allocations within the DoD through the utilization of "business-like" practices, the Secretary of Defense has introduced the Defense Business Operations Fund (DBOF). Although there are

many aspects to this undertaking, we will focus only on those portions that will directly impact the installation commander. We begin with a brief description of the stated goals of DBOF, the basic concept, and the planned implementation of the Base Operations segment of DBOF. Following this will be a discussion of the potential impact of DBOF on the installation commander.

1. The Stated Goals of DBOF

According to the DBOF Implementation Plan presented by the Deputy Comptroller of DoD, "The primary goal of implementing the Fund is to provide a business management structure that encourages managers and employees of DoD support organizations to provide quality products or services at the lowest cost" [Ref. 49:p. 2]. This document goes on to state that, "Applying the concept of managing to total cost provides increased flexibility to both customers and providers" [Ref. 49:p. 3]. In the terms of the implementation plan, the installations are the "support organizations" and "providers" mentioned above.

2. The DBOF Concept

According to Susan Grant, Deputy Director of the DBOF Project Office, DBOF is intended to place the business operations decision making process in the hands of operating force commanders. Removing this function from the supporting establishment commanders is intended to increase flexibility, to make trade off analysis possible, to optimize the use of available resources and to

provide quality support. The idea is that if funding and resource consumption decision responsibility rests with operating units (customers), then operating unit opportunity costs become more apparent. Consumers should be driven towards a more efficient level of consumption than under the public, "free" good scenario which prevails under the current system. [Ref. 50].

Toward these ends, DoD will transfer all O&M funding to FMF units. The supporting installations will then provide services to the operational units strictly on a reimbursable basis. As initially formulated, DBOF would allow FMF commanders to decide which services in the General and Administrative (G&A) category they wished to purchase, and to shop for the best value in the services they required. Theoretically, this shopping could be done in the private sector, as well as other nearby military installations.

Recognizing that installations offer certain G&A services which they must provide whether FMF commanders choose to purchase them or not, the original plan was altered to include the concept of mandatory and discretionary services. "Services such as safety, environmental, and fire protection must meet statutory, community, and personnel requirements. Tenants are required to pay a proportional share of the cost for the basic level of service." [Ref. 51:p. 2]

Discretionary services are those which the installation commander can choose to offer or cancel, "based on the base commander's determination that sufficient customer demand warrants provision of the service" [Ref. 51:p. 3].

In addition, fixed operating and infrastructure costs will be passed on to the operating forces by prorating the expenses and allocating them to other services provided.

One of the most important aspects of the DBOF concept is the idea of Unit Cost Resourcing. Under this system, "all of the costs incurred at an activity, or within a function, should be related to an output of the activity. The goal is to have each product or output bear as accurate a cost as possible" [Ref. 52:p. 2]. As proposed, unit costs for all services will be computed at the DoN level and passed down to installations throughout the Navy and Marine Corps. The installation commander will then have to charge these prices until they are recomputed for the following fiscal year. Under DBOF, if the actual cost exceeds the computed unit cost, the installation commander may receive an injection of funds to cover the shortage. Conversely, if the actual cost is less than the computed unit cost, the gains due to the excess reimbursement could be recouped into the DoD managed central fund.

Part of the DBOF proposal contains the concept of gainsharing. This involves allowing the supporting establishment to retain a portion of any gains they realize from increased efficiency in providing services. Although a specific percentage has not been determined, the general consensus is estimated to be in the area of 10 percent retention [Ref. 50].

The goal of gainsharing is to provide an incentive for efficiency gains similar to that which exists in the private sector. In the private sector however,

a firm is usually able to retain 100 percent of its gains from efficiency (less taxes) for use as management determines to be in the best interest of the firm. The gainsharing idea is a step in the right direction, but depending on the percentage of retention, the incentives provided are seriously dampened.

3. DBOF and Efficiency

In operational terms, efficiency can be defined as successfully accomplishing a given mission at the lowest total cost. Inefficiency results, therefore, from other than mission-essential support being provided or from mission-essential support being provided at higher than optimal cost levels. It should be noted that quality of life programs can be categorized as mission-essential to varying degrees.

One of the fundamental assumptions upon which the DBOF is based is that the operational commander is in a better position to determine optimal levels of support received from the host installation. If this assumption is valid, the current practice of funding supporting installations and allowing them to determine levels of support based on their budget and their commanders' priorities (which may differ from the FMF unit commanders') is likely to result in an inefficient allocation of resources. This is due to the fact that the installation commander, whose mission is to provide support for the FMF commander, may put resources into activities which the FMF commander does not need, or could obtain at lower cost from a different source. This shift of funding control is the

basis for claims that DBOF will force installation commanders to focus on efficiency when providing services to the FMF.

Although it is our opinion that putting the resources in the hands of FMF commanders could result in a more efficient allocation of resources, it is not within the scope of our thesis to analyze the strengths and weaknesses of the DBOF proposal. Our concern here is the potential impact DBOF may have upon the budget flexibility of the installation commander. Having highlighted the major elements of DBOF, we now move to examining this issue.

B. DBOF AND THE INSTALLATION COMMANDER

1. Budget Flexibility

The impact of DBOF is likely to be significant. Many of those interviewed and surveyed indicated that they believe the installation commander will have no flexibility under DBOF. Lieutenant Colonel C. H. Thornton, Jr., Comptroller at MCB, Camp Lejeune, North Carolina stated,

> Under DBOF, the host command/activity will have little or no 'flexibility' to increase its budget, because the focus of its funding will be on unit cost resourcing. It is not expected that increasing budget flexibility for host commands/activities will be a part of the DBOF concept once implemented [Ref. 53:p. 2].

We agree that budget flexibility as we have presented it up to this point may cease to exist under DBOF. Installation commanders will receive no direct funding, but will simply be reimbursed for their costs. We do, however, feel that the installation commander will gain some budget flexibility of a different sort.

The gainsharing system described above should give the installation commander the opportunity to generate some budget flexibility within the constraints of DBOF. Regardless of the percentage of gain that can be retained at the installation, gainsharing should provide some incentive for installation commanders to seek a more efficient allocation of resources. If cost savings can be achieved, then gainsharing will permit some flexibility. This is true unless the use of retained funds is severely restricted, similar to the fencing which currently exists. In addition, there will also be perhaps even greater decisional flexibility for the installation commander under DBOF than currently exists.

2. Decisional Flexibility

By decisional flexibility we mean the ability to choose which resources and means to use in providing a service to the operating forces. Since the costs of providing services will be born by the using units, the installation commander may not be as limited in choosing whether to utilize in-house assets or contract out.

Some limitations will still exist, however. When deciding to contract out, the commander will still have to conform to existing contracting and acquisition regulations. As previously indicated, these regulations can result in goods and services costing more (and perhaps being of inferior quality) than they might if the commander were truly free to choose. Also, since the prices for services are set centrally, the commander does not have unlimited flexibility to

incur excess costs. If an installation cannot conform to published pricing guidance, surely questions will be raised at HQMC. This is not a desirable consequence.

In stating above that budget flexibility, as we have defined it, may be reduced under DBOF, it further supports the thesis of our study. However, the implementation of the DBOF will have an impact on budget flexibility beyond that borne by the installation commander.

C. SHIFTING THE FLEXIBILITY DILEMMA

Under DBOF, the budget flexibility algorithm we developed remains valid. Budget flexibility as we define it will not disappear with the arrival of DBOF. However, it is likely to be shifted from the installations onto the operating forces of the FMF.

There will still be mandatory programs such as child care, MRP, environmental management, FECA, etc. The costs of these programs will simply be shifted into the FMF budget base. The installations will still have fixed costs such as utilities, civilian labor and contracts, and these costs also will be shifted to the FMF budget base. The FMF will also retain the fixed costs and mandatory programs which are peculiar to itself. In addition, the operating forces will inherit the resource drain of a potentially more complicated budget justification process and the labyrinthine accounting systems which will be necessary to allow the FMF unit commander to make the difficult choices about which services to purchase where.

As indicated in Chapter VI, top-line budgets showed steady real declines from FY 1988 to FY 1992. All of the above indicators lead us to the conclusion that budget flexibility will be shifted from the installation commander to the FMF units under DBOF.

D. CONCLUSION

If the base operations portion of DBOF is enacted as it has been formulated, the FMF commanders will face a combination of existing FMF flexibility problems, in addition to those documented at our subject installations. For this reason, the advent of DBOF does not invalidate our premise. Rather, it suggests that further studies on budget flexibility, as we have outlined it in this thesis, will need to focus on the effect of DBOF on the operating forces vice the installations. There is a need to study the decisional flexibility of installation commanders under DBOF. Recommendations for further study in the area of budget flexibility will be included in the following chapter.

IX. SOLUTIONS TO THE FLEXIBILITY DEFICIENCY

Thus far, this thesis has established that budget flexibility is a vital factor in attaining optimum efficiency for resource allocation and that budget flexibility for the installation commanders studied is dangerously low. This chapter presents some specific recommendations for restoring the level of flexibility to facilitate a more efficient allocation of resources at installations and within DoD.

These recommendations are presented in a three tiered framework. First, we provide recommendations for commanders to utilize at the installation level. Second, we offer suggestions for HQMC and DoD. Third, and finally, we propose changes at the congressional level. We point out here, that a few of these recommendations may appear radical or even ludicrous at first glance. Our desire is to identify opportunities to forge a new frontier, or rather regenerate a return to the basic concept of command, responsibility and authority. Furthermore, if nothing else, we wish to provide an impetus for thought and action on ways to improve our Marine Corps. We begin at the installation level.

A. RECOMMENDATIONS FOR THE INSTALLATION COMMANDER

1. Zero Based Budgeting

Fiscal austerity and minimum flexibility may best be handled with a detailed examination and validation of the entire budget--starting from ground zero. Zero Based Budgeting, or ZBB, has been in existence for some time. Mr. Don Angel, Comptroller of COMCABWEST, strongly advocates and utilizes this concept in his managment duties. Mr. Angel's approach first identifies the "Core Programs" of the installation and places these as part of the installation's foundation. Upon this foundation, he develops a hierarchy of programs that will be funded as resources are available. "Thinking in terms of programs," not just individual dollars will help establish a more effective perspective for analysis of the budget [Ref. 44]. By allowing commanders to sort out the programs which are consuming more resources than necessary, ZBB can aid in generating flexibility. The goal is increased efficiency in all areas, leaving greater resources available for use wherever needed. Several financial management books have been published and are available on the ZBB concept. Although ZBB has proved unworkable at the executive department level, installations may be small enough for it to be effective. It is worth a try.

2. Collective Efforts

Recognizing that the best solutions to difficult problems often result from a team approach can be the first step to discovering additional flexibility. Once again, we cite managerial tools utilized by Mr. Angel. At COMCABWEST, Mr. Angel has formed Resource and Position Management Boards. As their name implies, resource boards examine the budget in terms of the resources available to the installation while trying to allocate them efficiently, vice having each separate functional area considering their individual concerns. Position boards operate similarly, but their focus is human assets. This collective slicing and comprehensive analysis of an installation's budget allocation can foster teamwork and unity while resulting in the optimum allocation of resources within the installation. These boards also bring together the expertise, experience, and ideas of all the units at the installation, recognizing that good ideas come from all levels within an organization, not just from "top" management.

3. Examine and Reengineer

All of the individuals we interviewed in one form or another, mentioned the need to examine "how we do business" and to look for ways to implement improvements. Captain Judi Mellon, Comptroller of Marine Corps Air Station, Tustin recommends utilizing the Management By Wandering Around (MBWA) concept. Getting to know exactly how and where the installation's resources are going to be employed provides a deeper understanding of the needs

of the base and a means to identify possible improvements. [Ref. 54]. This is consistent with principles of TQM.

The second element of this approach--reengineering--requires taking a totally different perspective towards operations. Changes on the margin may provide some positive benefits, but an entire subsystem overhaul may yield benefits of a greater amount. This approach ignores the "that's the way it has always been done" mindset, and seeks totally new approaches to the same old problems. One possible form of reengineering is to examine all existing private sector contracts. The commander may eliminate those that do not result in efficient service and renegotiate those that have minor inefficiencies within them. The key is to not stifle creativity and innovation in searching for new solutions to old problems.

4. Total Quality Leadership/Total Quality Management

One means to generate improvements within the existing system is to fully adopt TQL/TQM. Although we feel that the principles of leadership as embodied by the United States Marine Corps encompass the Deming philosophy, there are nuances that are worth trying. The central themes of continual improvement of processes and the empowerment of individuals within the organization are key to establishing and maintaining an efficient unit and a satisfying, rewarding work environment. The proper employment of TQL/TQM at installations may generate additional efficiencies and cost savings and thereby increase the amount of a commander's budget flexibility.

5. Share Your Success

At the opening of the 1992 Financial Management Conference in San Diego, California, Lieutenant General Robert J. Winglass, Deputy Chief of Staff, Installations and Logistics, HQMC, took the attendees by surprise when he called upon individuals from the attendance roster and asked them to share at least one fiscal success story with the audience. The key here is to not assume that your successes are limited in application to your installation or that other installations are already aware of them. [Ref. 55].

B. RECOMMENDATIONS FOR HQMC AND DOD

1. Eliminate Centrally Managed Funds and Program Sponsors

Although this recommendation appears radical, we feel that the current downsizing of the entire military and the Corps necessitates such a move. Taking such action would allow HQMC to accomplish two significant goals. First, bestowing the responsibility of financial management on individual commanders is in keeping with the Marine Corps philosophy of command. Second, eliminating additional non-FMF billets would provide additional assets to the FMF. Drastic times call for drastic actions.

2. Dismantle the Fences

Reduce the floors, raise the ceilings, and empower the commanders. For over 217 years Marine commanders have upheld their commitment to superior performance and have consistently proven that when given authority

commensurate with their responsibility, the sky is the limit. Realizing that congressional approval is necessary for some of this action to occur, some can be undertaken within DoD.

3. SABRS—Fix it or Flush it

As mentioned earlier, it is readily apparent within Marine Corps financial managment that there are significant problems with SABRS. We recommend that the problems be assessed and a decision be made as to whether they can be adequately remedied within a reasonable timeframe and budget. Additionally, we recommend that if it appears that this repair timeline cannot be adhered to, or if additional problems begin to surface, a decision be made to abort SABRS. As with any strategy, a fallback plan to another system should be prepared and implemented if necessary. We no longer have the ability to continue to throw time and money at a problem until it is fixed.

4. Pure Manage To Payroll

Although we have not extensively discussed the MTP program as a non-monetary form of fencing and its effect of reducing flexibility, this recommendation can stand on its own. Very simply, we recommend that if the fence on labor dollars cannot be removed, the MTP program should at least be implemented as designed. This calls for the elimination of endstrength and workyear controls. The only restriction should be total dollars allocated to payroll. The implementation of MTP is another example of an excellent idea being

corrupted and negated by excessive restriction. Once again, we must place faith in the discretion of our commanders.

5. Intersubhead Transfers

In keeping with our theme of increasing the authority of installation commanders, we recommend that the restrictions on intersubhead transfers at the installation level be relaxed. This was accomplished during the Unified Budget Test (UBT) by allowing transfers to take place at the installation level, while balancing the accounts at the service level. The UBT demonstrated that only a small percentage of funds were actually shifted at any one installation.

6. Change the Budget Philosophy

Given the lack of authority for commanders to roll forward funding from one year to the next, a command should not be labelled fiscally incompetent if the commander feels that it is in the best interests of the unit, the Marine Corps, or the government to turn money back to higher headquarters. As we mentioned earlier, mandating the one hundred percent expenditure of funds probably results in unnecessary purchases. We feel that it is inappropriate to penalize a commander by reducing the following year's budget base as a result of the commander turning money back to higher headquarters. The choice seems to be between honesty and forced compliance.

7. Modify Incentive Programs

The presence of monetary incentive programs like the Shared Energy Savings program, DMRD 907, and the Recycle program are excellent examples of ways to increase budget flexibility and accomplish honorable cost and environmental savings. But, guidelines for these programs stipulate that any savings achieved must be expended in the same budget area to attempt even greater savings. Why limit the commander in how to spend the unit's earned savings? If the commander, using the advice of the installation's functional experts, feels that more savings can be accomplished through additional conservation efforts, that commander will pursue both the conservation efforts and the accompanying financial rewards. Conversely, if the commander is restricted to expending earned savings in pursuit of additional energy savings, which may cost more than the resultant savings, the end result is a mandated waste of resources. The installation commander should be afforded the authority to choose how, and in which areas, to obligate savings generated through increased efficiency. In so doing, DoD would establish the strongest possible incentive for increased efficiency.

8. Revive the Unified Budget

Based on the success of the Unified Budget test and the findings of the managerial experts referenced throughout this thesis, we recommend that, at a minimum, additional installations conduct another unified budget test. Optimally, a commander would be provided with one pool of money to be obligated

according to the commander's discretion. We contend that providing this type of budget with adequate incentives and limited restrictions to today's highly capable commanders will result in the kind of efficiency and effectiveness desired within the DoD.

9. Contract Out for Installation Management

Perhaps our most unorthodox recommendation is to eliminate the installation commander and contract with a private management firm for installation management. The two major objections to this recommendation--1) a reduction in available command billets, and 2) an installation manager who may be insensitive to the needs and problems of the FMF commander--are both valid. However, as asserted in Chapter II, commanding an installation in the current inflexible environment may actually mute a commander's natural tendencies toward initiative and flexibility. This potential inculcation of undesirable traits means that the loss of these leadership billets might not actually harm the development of our combat leaders.

In addition, under the DBOF proposal, an installation manager may not be in a position to ignore the needs of the FMF commander. The installation manager will be more dependent upon the FMF commander for funding. Also, the competition for services and scrutiny of installation budgets required under DBOF is intended to ensure that the manager has incentives to provide services to the FMF in an efficient manner.

One final consideration related to this recommendation is the impending force reduction within the military. By eliminating the billets necessary for installation management, the military may be able to reduce manning levels without significantly degrading the force strengths in the operating forces.

C. RECOMMENDATIONS FOR CONGRESS

Congress is in a powerful position to influence the level of budget flexibility at the installation level. Obviously recommending that DoD receive increased funding is irrelevant. We do have, however, some recommendations on how Congress can do its part in solving the budget flexibility dilemma.

1. Responsible Legislation

Congress needs to take more responsibility for the impact that its legislation has on those who are affected at the lowest levels. This is a blanket responsibility, not just for the defense committees. As indicated in Chapter III, many non-defense committees pass legislation with direct impact on DoD activities. It is not enough to simply acknowledge that jurisdictions overlap among committees. The far-reaching effects of legislation must be anticipated. New programs mandated through legislation should be required to provide funding commensurate with the new requirements. It is irresponsible for Congress to ask DoD and the installation commanders to take new expenses out of hide, because the hide is wearing thin.

2. Remove Child Care From the DoD Mission

The military is in existence for the purpose of deterring aggression and fighting wars if need be. At the current time, DoD is forced to conduct business in areas beyond the realm of expertise which is requisite for completion of the primary mission. Child care is one such area. We do not deny the importance of child care to military families trying to make both ends meet on government salaries. Our position is rather that DoD is not likely to be the most efficient provider of this service.

Another argument against putting DoD in the child care business is that money taken from base operations to support child care is money which formerly benefitted all Marines, but now only benefits those with families. Our proposal here is the establishment of a Basic Allowance for Child Care, similar to the Basic Allowance for Subsistance (BAS) and Basic Allowance for Quarters (BAQ). This would allow greater flexibility, not only to the installation commander, but to the individual Marines themselves.

3. Allow More Flexible Use of Lapsed Funding

This is a self-explanatory concept. The time restriction on the use of appropriated funds is a significant barrier to the efficient allocation of resources; witness the end-of-year spending frenzies which occur within O&M. The slow-spending procurement accounts are set up with flexibility in mind. This same approach to O&M would reduce the tendencies toward wasteful spending at year's end, while opening up a new door on flexibility. The O&M budget should

be appropriated in a two year format, and commands should be allowed more flexibility to roll funds forward from one year to the next.

D. A RECOMMENDATION FOR FURTHER STUDY

As previously mentioned, we recommend that the issue of decreasing budget flexibility be studied further. Additional studies could include the documented impact of DBOF on budget flexibility if DBOF is enacted in its intended form. A continuation of this thesis is possible, as is a subsequent study in several years to determine if any action has been taken to increase flexibility.

E. CONCLUSION

As stated at the beginning of this chapter, many of our recommendations may seem too comprehensive at first glance. It is also true that most, if not all, of our recommendations may be opposed by counter-arguments with some merit. Our purpose in making these recommendations is to stimulate thought and discussion. We are entering into an era of unprecedented budget austerity for DoD and now is the right time to question orthodox thinking and practices in the budgetary arena.

X. CONCLUSIONS ON DECREASING BUDGET FLEXIBILITY

Throughout this thesis, we have maintained the importance of budget execution flexibility. Our argument in Chapter II supported this contention by highlighting the importance placed on flexibility in other military activities, as well as the private sector budget arena. We are not unique in our belief in the desirability of budget flexibility within the military.

Recalling the discussion of the O-1 budget justification in Chapter III, the FY 1993 Conference Report on Defense Appropriations stated that Congress does not seek to undermine the flexibility of military commanders. Congress is not the only entity in the DoD budget hierarchy that professes to support the importance of budget flexibility.

To paint the picture within DoD, we begin by presenting an excerpt from a Deputy Secretary of Defense memorandum dated 26 March 1986:

> Here are three things we must accomplish: First, give more authority to the doers, linking responsibility with authority and push both down to lower organizational levels.... Cancel or rewrite regulations that limit installation commander's freedom to do their jobs.
>
> Second, free installation commanders to purchase goods and services wherever they can get the combination of quality, responsiveness, and cost that best satisfies their requirements... giving our commanders as much freedom as possible to make intelligent use of their resources.
>
> Third, strengthen the commander's incentive and ability to save money. Let commander's keep some of the money they save and decide how to spend their share [Ref. 56:p. 1].

This memorandum, generated by the same official who initiated the Unified Budget Test, was followed by DoD Directive 4001.1 of September 4, 1986 which promulgated the identical three stipulations. The Marine Corps subsequently published Marine Corps Order (MCO) 5200.25 indicating a commitment to the intent of the Deputy's policy.

In 1989, the Fiscal Director of the Marine Corps stated in a memorandum that, "it is absolutely essential, and basic Marine Corps policy holds, that as much flexibility as possible be afforded to commanders in the execution of their financial plan. ...each commander is authorized to realign O&MMC funded resources to increase budget flexibility. This authority extends to funding provided by HQMC program sponsors" [Ref. 57:p. 1].

It is true that the Fiscal Director has acted to protect flexibility for installations, but there are still conflicting signals which emanate from HQMC in this area. Comparing the highly restrictive budget control system, as measured using our budget flexibility algorithm, with the stated policies of the Congress, the Secretary of Defense, and HQMC, it is readily apparent that something is amiss. Authors Waterman, Peters, and Phillips state, "Organizations may listen to what managers say, but they believe what managers do. Not words, but patterns of actions are decisive" [Ref. 58:p. 22]. Higher authorities have preached flexibility, yet they have installed tight-fisted control.

Since 1986, and especially during the time period we analyzed in Chapters III through VI, the decrease in top-line budgets and the increase in the amount

of congressional line-item oversight, fenced funds, centrally managed programs, and the corresponding decrease in installation budget flexibility seem to indicate the prevalence of an overall philosophy that undermines the stated intent of increasing budgetary discretion for installation commanders.

There is little which can be done about the political and economic environment that leads to decreasing budgetary resources within DoD. Likewise, the fixed costs associated with mission accomplishment can be reduced only so far. But the same is not true in the area of budget fencing and mandatory programs. As Robert Frost stated in his poem *The Mending Wall,* "Something there is that doesn't love a wall" [Ref. 59:p. 33]. It is no longer sufficient to rely on the old maxim that "good fences make good neighbors."

As recommended in Chapter IX, Congress and the DoD budget hierarchy must begin to place a real emphasis on restoring the flexibility of the installation commander if DoD is to become a more efficient organization. This means reexamining not only the programs and fences, but the missions installation commanders are required to perform.

The Marine Corps has prided itself on what may be termed "visionary leadership." We look for innovative solutions to age-old problems, and have historically exhibited a maverick image. The budget flexibility dilemma requires innovation and "visionary leadership." Quoting from Burt Nanus' book, *Visionary Leadership,*

> *Be flexible and patient in implementing...* Once the proper sense of direction has been determined... By delegating implementation decisions to those closest to the issues at hand and by allowing employees considerable flexibility... you are allowing others to take ownership...and experience pride... Apart from the energizing aspects of such an approach, it allows for many small experiments and learning experiences to take place and also insulates the organization from major errors that almost surely would follow from top-down planning or supervision
> [Ref. 60:p. 170].

This "flexible and patient" approach is neither visionary nor exceptionally innovative at this point in time. It is simply a common sense application of the historical Marine Corps bias toward reinforcing initiative at all levels.

For generations, Marine commanders have been trusted in battle with the most sacred resource our nation possesses—its youth. No leader has ever been more revered than the one whose initiative and flexibility resulted in victory on the battlefield with fewer losses and casualties than would have occurred had the detailed orders of a superior gone unchallenged.

The Marine Corps and the entire Department of Defense must continue to inspire initiative and flexibility. Now is not the time to corral the initiative of our installation commanders, giving them little alternative but to behave like frightened, starving sheep. There will never be such a time!

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APPENDIX A. ABBREVIATIONS AND ACRONYMS

AO	Administering Office for budget formulation and execution
BA	Budget Authority
BASECOM	Base Communications
BASEOPS	Base Operation Support (BOS)
CBO	Congressional Budget Office
CMC	Commandant of the Marine Corps
DBOF	Defense Business Operations Fund
DoD	Department of Defense
DODDIR	DoD Directive
DoN	Department of the Navy
DU(C)	Decision Unit (Code)
EE	Expense Element
FD	Fiscal Director of the Marine Corps
FECA	Federal Employment Compensation Act
FP&SE	Food Processing and Serving Equipment
FY	Fiscal Year
GAO	General Accounting Office
HAC	House Appropriations Committee
HASC	House Armed Services Committee

HQMC	Headquarters, United States Marine Corps
MAGFARS	Marine Air Ground Financial Accounting Reporting System
MCAS	Marine Corps Air Station
MCB	Marine Corps Base
MCON	Military Construction Appropriation
MRP	Maintenance of real property (referred to by Congress as RPM—Real property maintenance)
MWR	Morale, Welfare and Recreation
NAVCOMPT	Navy Comptroller
O&M	Operation and Maintenance Appropriation
O&MMC	Operation and Maintenance, Marine Corps Appropriation
OMB	Office of Management and Budget
OPBUD	Operating Budget
OSD	Office of the Secretary of Defense
O-1	Line item O&M budget justification package prepared for Congress by DoD
PPBS	Planning, Programming, and Budgeting System
PPC	Program Package Code
PSE	Personnel Support Equipment
P-1	Line item Procurement budget justification package prepared for Congress by DoD
RIF	Reduction in Force
R-1	Line item Research and Development budget justification package prepared for Congress by DoD

SABRS	Standard Accounting and Budgeting Reporting System
SAC	Senate Appropriations Committee
SASC	Senate Armed Services Committee
SecDef	Secretary of Defense
SIK	Subsistence in Kind
SWA	Service-wide Activities
TAVSC	Training and Audiovisual Support Center
TQM	Total Quality Management
UBT	Unified Budget Test
2BO	PPC for BOS
2BC	PPC for BASECOM
2FO	PPC for Flight Operations
2SW	PPC for Service-wide Activities
7SP	PPC for SIK
8SS	PPC for Special Skill Training
8TS	PPC for Training Support
80D	PPC for Off Duty Education
80S	PPC for Other Personnel Support
90A	PPC for Other Administrative

APPENDIX B. PRIMARY SOURCES OF DATA

A. OPERATING BUDGETS

The operating budgets for Kaneohe Bay and Camp Pendleton were very similar, except for the different sources for each—Camp Pendleton's originating at HQMC and Kaneohe's originating at FMFPac. An example of a Kaneohe Bay OPBUD is located on pages 181-182. The OPBUDs for El Toro were locally generated versions of the NAVCOMPT form 2168-1 used by the other installations. An Example of an El Toro OPBUD is located on pages 183-187.

As is readily apparent, the OPBUDs divide the funds into subheads and direct and reimbursable funding, giving subtotals for each category. In the remarks section of each OPBUD can be found some of the spending restrictions and fences applicable to the installation. Also in the remarks section is a summary of the changes which have occurred since the previous OPBUD was issued.

From the OPBUDs we were able to determine total 2720 funding available, as well as some of the fences imposed by higher authorities. The remarks section on the El Toro OPBUDs was much more detailed than those for the other installations. This made up for the fact that COMCABWEST does not issue funding authorization messages to its subordinate commands. We were able to determine most of the fenced amounts for El Toro directly from the OPBUDs.

B. FUNDING AUTHORIZATION MESSAGES

Both Kaneohe Bay and Camp Pendleton received funding authorization messages from the next highest echelon in the budget hierarchy. Two examples of Camp Pendleton funding authorization messages can be found on pages 188 and 189.

Easily identifiable on each message are the date of transmission, the origin and the installation involved, as well as the following: the subhead, the quarter of the fiscal year, and the dollar amount of the change. In addition, if the funds are provided for a specific purpose, this will also be annotated in the message. The first message shows that the funding has been "provided for collateral equipment for FY89 MCON project P-954, Multi-purpose facility, Bridgeport." This is a definitely identified specific purpose and would fall into our Other Fenced category of funding. The other message shows that the funds provided "will be applied to maintenance floor." These funds are included in MRP, but are not included in the computation of flexibility as explained in Chapter V.

C. 10890 REPORT B

The MAGFARS 10890 Report B was available for all fiscal years from FY 1988 to FY 1991 at both Kaneohe Bay and Camp Pendleton. An example of a 10890 Report B appears on pages 190-198.

The 10890s enabled us to break out the fixed costs which were applicable to our computation of flexibility. Identified in the heading portion of the report is

the installation, the date of the report, the appropriation with fiscal year (the third digit of the appropriation data identifies the fiscal year), and the subhead (the last four digits of the appropriation data).

The body of the 10890 contains several columns of information. The first column is the Decision Unit (DU). This identifies the major spending category within the subhead. It includes such categories as Base Communications, MRP, MWR Support, Utility Operations, General Engineering Support, etc. The third column is also important. It contains the Function/Sub-function (FSF) code. The most important aspect of this column for our research is that it identifies direct and reimbursable spending. Reimbursibles have a "z" as the second character in this column. Since we did not include reimbursibles in our study, this allowed us to remove them from the totals. The fifth column is the Expense Element (EE). This is a detailed breakdown into type of spending within DU. For our purposes, the relevant EEs were "U" (Civilian Labor), "M" (Utilities and Rents) and "Q" (Purchased Services, Other). By totaling each EE and subtracting the amounts for those DUs which were already accounted for in one of the fencing categories, we were able to calculate fixed costs for Labor, Utilities and Purchased Services. The final fixed cost of Messhall Contracts was obtained from the comptroller at each installation.

As previously explained, we were unable to locate copies of Report B of the 10890 for El Toro. For this reason, some of the fixed cost amounts for El Toro were calculated by the station comptroller's office from other records. The source

was not strictly comparable to the other installations, but consistency was maintained across fiscal years for El Toro.

HEADQUARTERS, MARINE CORPS BASES, PACIFIC
SUBOPERATING BUDGET FUND AUTHORIZATION

DOCUMENT NO. M67025 92 SUBOPBUD 00318
APPROPRIATION: 1721106
ACCOUNTING
OFFICE NO. 00318
SUBOPBUD NO. 00318 AMEND NO. FIVE

FROM: COMMANDER
MARINE CORPS BASES, PACIFIC

TO: COMMANDING OFFICER
MCAS KANEOHE BAY
KANEOHE, HI 96863

APPROVED BY:
AC/S, COMPTROLLER

EFFECTIVE DATE
29 FEB 1992
DATE OF ISSUE
09 MAR 1992

SUBHD	DESCRIPTION		1st QTR	2nd QTR	3rd QTR	4th QTR	TOTAL
2720	GEN PURPOSE FORCES DIR/OBL AUTH	PRI	7,628,339	6,429,000	6,500,000	5,481,000	26,038,339
		CHG	0	450,000	0	0	450,000
		REV	7,628,339	6,879,000	6,500,000	5,481,000	26,488,339
2720	GEN PURPOSE FORCES REMB/OBL AUTH	PRI	227,500	259,316	227,500	227,500	941,816
		CHG	0	0	0	0	0
		REV	227,500	259,316	227,500	227,500	941,816
2770	CENT SUPPLY/MAINT DIR/OBL AUTH	PRI	401,000	492,000	0	0	893,000
		CHG	0	0	0	0	0
		REV	401,000	492,000	0	0	893,000
2780	TRNG MED/OTH GPA DIR/OBL/ AUTH	PRI	329,200	362,100	259,800	351,920	1,303,020
		CHG	0	0	0	0	0
		REV	329,200	362,100	259,800	351,920	1,303,020
TOTAL DIR/REIM/OBL AUTH		PRI	8,586,039	7,542,416	6,987,300	6,060,420	29,176,175
		CHG	0	450,000	0	0	450,000
TOTAL OBLIG AUTH SUBJ 31 U.S.C. SECT. 1517		REV	8,586,039	7,992,416	6,987,300	6,060,420	29,626,175

REMARKS:

1. $26,626,175 OF ABOVE AMOUNT IS OBLIGATIONAL AUTHORITY SUBJECT TO 31 U.S.C. SECTION 1517 ON A CUMULATIVE QUARTERLY BASIS, WHICH MAY BE INCREASED BY THE AMOUNT OF REIMBURSABLE ORDERS RECEIVED (FUNDED).

2. $450,000 INCREASE IS THE NET OF THE FOLLOWING ADJUSTMENTS:
   a. $50,000 INCREASE FOR CABLE PLANT UPGRADE; COMMARCORBASESPAC 1419142 FEB 92
   b. $100,000 INCREASE FOR ENVIRONMENTAL MGT; COMMARCORBASESPAC 1419142 FEB 92
   c. $300,000 INCREASE CORROSION CNTL STUDY; COMMARCORBASESPAC 0222142 MAR 92

3. THE AMOUNTS ESTABLISHED FOR THE FOLLOWING ITEMS ARE TARGETS (NOT SUBJECT TO 31 U.S.C. SECT 1517):

a. $9,307,539 OF OBLIGATIONAL AUTHORITY IS FOR MAINTENANCE OF REAL PROPERTY FACILITIES AND SHOULD NOT BE DECREASED WITHOUT PRIOR COMMARCORBASESPAC APPROVAL, AND IS NOT AVAILABLE FOR OTHER PURPOSES.

b. $911,816 OF OBLIGATIONAL AUTHORITY IS FOR FLIGHT OPERATIONS AND SHOULD NOT BE EXCEEDED WITHOUT PRIOR APPROVAL OF THE COMMARCORBASESPAC.

c. $893,000 OF OBLIGATIONAL AUTHORITY IS PROVIDED FOR SUBSISTENCE-IN-KIND AND IS NOT TO BE EXCEEDED WITHOUT PRIOR COMMARCORBASESPAC APPROVAL, AND IS NOT AVAILABLE FOR OTHER PURPOSES. FUNDS ARE FOR A AND B RATIONS.

d. $30,000 OF OBLIGATIONAL AUTHORITY IS FOR AGRICULTURAL OUTLEASE PROGRAM AND SHOULD NOT BE EXCEEDED WITHOUT PRIOR APPROVAL OF THE COMMARCORBASESPAC.

e. $11,191,000 OF OBLIGATIONAL AUTHORITY IS FOR "MANAGE TO PAYROLL" PROVIDED ON INITIAL LOA DTD 22 OCT 91 AND SHOULD NOT BE EXCEEDED WITHOUT PRIOR APPROVAL OF THE COMMARCORBASESPAC.

f. $36,800 OF OBLIGATIONAL AUTHORITY IS PROVIDED FOR DOD DRUG PROGRAM. FUNDING IS SPECIFICALLY DESIGNATED FOR DOD DRUG PROGRAM EXPENSES AND CANNOT BE USED FOR OTHER PURPOSES.

4. REALIGNMENT OF OBLIGATIONAL AUTHORITY BETWEEN SUBHEADS IS NOT AUTHORIZED.

5. FUNDING FOR SUBSEQUENT QUARTERS IS NOT AVAILABLE FOR OBLIGATION UNTIL THE FIRST DAY OF THE APPLICABLE QUARTER.

6. $ 2,997,000 OF BASE OPERATIONS FUNDS ARE FOR UTILITIES. THIS AMOUNT IS A BASE FOR DEFICIENCY DETERMINATION.

COMCABWEST VARIATION OF NAVCOMPT FORM 2168-1 (REV 8)

RESOURCE AUTHORIZATION

FROM: COMMANDER
MARINE CORPS AIR BASES, WESTERN AREA
MARINE CORPS AIR STATION
EL TORO (SANTA ANA), CA 92709-5001

SUB-OPBUD NO. 60050
APPN NO. 1711106
SUBHEAD: 2720 & 2780 & 2770
AMENDMENT NO: 7

TO: COMMANDING GENERAL (CODE 1FB)
MARINE CORPS AIR STATION
EL TORO (SANTA ANA), CA 92709-5001

DATE: 28 JANUARY 1991
APPROVED BY:

O. S. SAYRE
By direction

---

1. Annual Sub-Operating Budget

FISCAL QTR (1)	TOTAL DIRECT EXPENSES INCREASE (DECREASE) (2)	TOTAL DIRECT EXPENSES QUARTERLY AMOUNT (3)	CHANGES IN UNDEL ORDERS INCREASE (DECREASE) (4)	CHANGES IN UNDEL ORDERS QUARTERLY AMOUNT (5)	TOTAL DIRECT OPERATING BUDGET/NOA INCREASE (DECREASE) (6)	TOTAL DIRECT OPERATING BUDGET/NOA QUARTERLY AMOUNT (7)
FIRST	0	12734433	0	0	0	12734433
SECOND	-312576	10508094	0	0	-312576	10508094
THIRD	-205715	10295127	0	0	-205715	10295127
FOURTH	-205715	13407862	0	0	-205715	13407862
TOTAL	-724006	46945516	0	0	-724006	46945516

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2. A recap of your adjusted annual New Obligational Authority (NOA) based on the transactions specified herein is as follows, by quarterly apportionment:

FISCAL QTR	+/-	PEN 26496M BASE OPS (OBO)	+/-	PEN 26495M TELECOMM (OBO)	+/-	PEN 28090M A/VISUAL (OBO)	+/-	PEN 26496M AG O'LEASE (OBO)	+/-	PEN 26496M RECYC MATLS (OBO)
FIRST	0	5891615	0	445385	0	55390	0	0	0	0
SECOND	-361211	4216557	3362	313252	33651	86732	19900	19900	0	0
THIRD	-205332	4635002	-23019	194511	16825	70177	9950	9950	0	0
FOURTH	-205332	4777434	-23019	283964	16825	69660	9950	9950	0	0
TOTAL	-771875	19520608	-42676	1237112	67301	281959	39800	39800	0	0

FISCAL QTR	+/-	PEN 21212M SVC-WIDE (OBO)	+/-	SUB-TOTAL OBO	+/-	PEN 26496M ACFT O&M (OBO)	+/-	PEN 26496M OTH AVN SPT (OBO)	+/-	PEN 26496M UH1N AVDLRS (OBO)
FIRST	0	0	0	6392390	0	233684	0	60370	0	15250
SECOND	0	533543	-304298	5169984	0	139008	0	45547	0	15250
THIRD	0	54771	-201576	4964411	0	91670	0	37784	0	15250
FOURTH	0	54771	-201576	5195779	0	91670	0	38484	0	15250
TOTAL	0	643085	-707450	21722564	0	556032	0	182185	0	61000

FISCAL QTR	+/-	PEN 26496N FLT SIM AVDLRS (OBO)	+/-	PEN 26496N NAWTS-1 OMN (OBO)	+/-	SUB-TOTAL FLT OPS PROG (OBO)	+/-	PEN 26494N GEN ENG (RPMA)	+/-	PEN 26494N UTILITIES (RPMA)
FIRST	0	31500	0	0	0	340804	0	1348726	0	1406450
SECOND	0	10500	0	0	0	210305	22920	592793	-31198	1362394
THIRD	0	0	0	0	0	144704	11461	956025	-15600	1488262
FOURTH	0	0	0	0	0	145404	11461	843833	-15600	1995086
TOTAL	0	42000	0	0	0	841217	45842	3741377	-62398	6252192

QTR	+/-	SUB-TOTAL RPMA (OBO)	+/-	GRAND TOTAL OBO	+/-	PEN 26494N MRP (M1/R1) (RPMA)	+/-	PEN 26494N MRP (M2) (RPMA)	+/-	PEN 26494N MRP (R2) (RPMA)
FIRST	0	2755176	0	9488370	0	2242346	0	67705	0	325800
SECOND	-8278	1955187	-312576	7335476	0	2574365	0	0	0	0
THIRD	-4139	2444287	-205715	7553402	0	2584025	0	0	0	0
FOURTH	-4139	2838919	-205715	8180102	0	5077760	0	0	0	0
TOTAL	-16556	9993569	-724006	32557350	0	12478496	0	67705	0	325800

FISCAL QTR	+/-	SUB-TOTAL MRP	+/-	TOTAL SUBHEAD .2720	+/-	PEN 72891M CNSRT OPS	+/-	PEN 71212N SVC-WIDE	+/-	PEN 72892N SUBSISTENCE
FIRST	0	2635851	0	12124221	0	0	0	0	0	460212
SECOND	0	2574365	-312576	9909841	0	0	0	0	0	455953
THIRD	0	2584025	-205715	10137427	0	0	0	0	0	0
FOURTH	0	5077760	-205715	13257862	0	0	0	0	0	0
TOTAL	0	12872001	-724006	45429351	0	0	0	0	0	916165

FISCAL QTR	+/-	TOTAL SUBHEAD .2770	+/-	PEN 89732M TA	+/-	PEN 89732M BSEP	+/-	TOTAL SUBHEAD .2780	+/-	GRAND TOTAL SUB-OPBCD
FIRST	0	460212	0	146600	0	3400	0	150000	0	12734433
SECOND	0	455953	0	135800	0	6500	0	142300	-312576	10508094
THIRD	0	0	0	152800	0	4900	0	157700	-205715	10295127
FOURTH	0	0	0	145800	0	4200	0	150000	-205715	13407862
TOTAL	0	916165	0	581000	0	19000	0	600000	-724006	46945516

LIMITATIONS & CONTROLS

3. Funding provided herein is obligational authority subject to 31 U.S.C. Section 1517 on a cumulative quarterly basis, which may be increased by the amount of funded reimbursable orders received.
4. Each individual sub-account within PENs identified above establishes an annual limitation for that sub-account which cannot be exceeded without prior approval of this headquarters (AF).
5. The MRP target reflected on the MC-2199 in Statistical Account /0A32 will equate to the annual amounts authorized in the above sub-accounts "MRP (M1/R1)", "(MRP (M2)", and "MRP (R2)".
6. Increases and/or decreases to the civilian labor annual financial plan will not be implemented without prior approval of this headquarters (AF).
7. In addition to the above sub-account limitations, the following annual administrative and/or statutory limitations are established and cannot be exceeded without prior approval of this headquarters (AF):

a. Minor Construction -- $876,000

b. Flightline Security (Floor) -- $62,000

c. ADP -- $1,371,826 (Including $635,660 CIVPERS labor)

d. TAD -- $322,750 ($252,750 Direct Base Ops/$70,000 Oth Avn Spt)

e. External PAO -- $2,300

f. Utilities (Floor & Ceiling) -- $6,057,590 (Excludes CIVPERS labor)

g. Messmen Contract (Floor) -- $235,448

h. Morale, Welfare & Recreation -- $672,591

i. CIVPERS Labor (Floor & Ceiling) -- $26,074,849 authorized/restricted as follows, based on the ABO 12510.1A managing to payroll concept:

	Direct OC-11	Direct OC-12	Reimb OC-11	Reimb OC-12
(1) CCCT	68,271	13,983	N/A	N/A
(2) 700 Hr Appt	0	0	N/A	N/A
(3) All Other	19,735,158	3,637,097	2,183,360	436,980
TOTAL	19,803,429	3,651,080	2,183,360	436,980

j. CCCT TAD (Floor & Ceiling) -- $0

k. NAWTS-1 Direct Base Ops (Target Limitation) -- N/A

l. Overtime/Premium Pay -- $252,750

m. Central Program PSE -- $3,771

n. Central Program FP&SE (Dining) -- $0

o. Central Program MCON Collateral Equipment -- $0

p. Central Program Drug funding -- $55,288

REMARKS

Ref: (a) MCAS El Toro (1FB) E-Mail of 17 Jan 91
(b) Verbal discussion btwn COMCABWEST (AFB) and MCAS El Toro (1FB) budget reps of 25 Jan 91

1. In confirmation of references (a) and (b), this amendment decreases FY91 OMC funds and MOA/Expense Authority in the net amount of $724,006 based upon the following actions:

a. Base Ops - Net decrease of $771,875 as follows:

1) Decrease of $821,335 for civilian labor adjustments. Reference (a) pertains.

2) Increase of $55,288 central program drug funding. Included in this funding is $692 to support MCAS Tustin training and audiovisual requirements. Reference (b) pertains.

3) Decrease of $908 excess alcohol funding. Included in your financial plan is $232 to support MCAS Tustin training and audiovisual requirements. Reference (b) pertains.

4) Decrease of $4,920 withdrawn for central funding to support the COMS contract. This action reduces your ADP limitation. Reference (b) pertains.

b. Telecom - Net decrease of $42,676 as follows:

1) Decrease of $92,076 for civilian labor adjustments. Reference (a) pertains.

2) Increase of $49,400 to support cable upgrade at MCAS El Toro ($38,600) and MCAS Camp Pendleton ($10,000). Reference (b) pertains.

c. AG O'Lease - Increase of $39,800 to support civilian labor costs.

d. Gen Engr - Increase of $45,842 for civilian labor adjustments. Reference (a) pertains.

e. MRP (M1/R1) - Realignment in the amount of $9,176 from civilian labor to material. Reference (a) pertains.

f. Utilities - Decrease of $62,398 for civilian labor adjustments. Reference (a) pertains.

g. AudioV - Increase of $67,301 for civilian labor adjustments. Reference (a) pertains.

REMARKS (CONT'D)

2. Additionally, this amendment decreases your OC-11 and OC-12 authority in the amount of $723,628 and $148,214, respectively. Reference (a) pertains.

3. All other provisions remain in effect.

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ADMINISTRATIVE MESSAGE

ACTION COPY

ROUTINE

R 130042Z JUN 90 ZYB PSN 940134S21

FM CMC WASHINGTON DC//FDB/FDF/LCO/LFL//

TO CG MCB CAMP PENDLETON CA//COMPT//

SECTION	ACT	INFO
[illegible]		✓
[illegible]		✓
RCCT	✓	
BUD	✓	
L		

BT
UNCLAS //N07130//

SUBJ: FY90 UMMC FUNDING
MSGID/GENADMIN/CMC FDB//
REF/A/RMG/CMC WASH DC/080132ZJUN90//
AMPN/COLLATERAL EQUIP FOR FY89 MCON PROJ P-954//
RMKS/

1. IAW THE REF, OPBUD FUND AUTHORIZATION UNDER 1701106 REVISED AS FOLLOWS:
   A. DOCUMENT NO M000279008 00681
   B. UIC 00681
   C. SUBHEAD 2720
   D. PPC 280
   E. QUARTER THIRD
   F. OBLIGATION AUTHORITY INCREASED 90,942 DOLLARS
   G. OPBUD AMEND FOLS

2. FUNDING PROVIDED FOR COLLATERAL EQUIPMENT FOR FY89 MCON PROJECT P-954, MULTI-PURPOSE FACILITY, BRIDGEPORT. POC IS MS. S. FRAZIER, LFL, AV 696-1001.//
BT

5G

FC	F/SF	CAC	DUC	E/E	AMT
BQ	D1	IRTO	12	W	90,942

BC(1)...ACT FOR CG MCB CAMP PENDLETON CA 5 07130/ 1/0084
BL(1) BK2(1) BF(1)

RTD:000-000/COPIES:0004

940134/2529/170 1 UF 1 MI 0324 170/03:35Z 130042Z JUN 90
CSN:RXCA0340 CMC WASHINGTON DC//FDB/FDF/LCO/LFL//

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SECTION	ACT	INFO
Comptl		
[illegible]		
[illegible]		
[illegible]		
Ops		
REL		
Disc		
CY		
MA		

ɪINISTRATIVE MESSAGE

ɪTINE

.419587 FEB 90 ZYB PSN 987885S45

CHC WASHINGTON DC//LFF-2/FOF/FDB/LCO//

CG MCB CAMP PENDLETON CA//BC/8F2//

:LAS //N11019//

)J: FY92 FAC PROJ PROG

CG MCB CAMP PENDLETON CA 181806Z DEC 89
PHONCON BTWN CAPT FOSTER(LFF-2) AND LAQUEETA MONTGOMERY(PWO) ON JAN 90

AS REQUESTED IN REFS A AND B, DESIGN AUTH GRANTED FOR PROJS)92R AND PE221R. ADDITIONAL A&E FUNDS IAO $33,000 ARE PROVIDED FOR ESE PROJS.

A&E FUNDS IAO $68,000 ARE PROVIDED FOR SITE INVESTIGATIONS ON)JS PE093R, PE094R, PE095R, AND PE096R.

OPBUD FUND AUTH UNDER 1701106 REVISED AS FOLS:
A. DOCUMENT NO M00027900800681
B. UIC 00681
C. SUBHEAD 2720
D. QUARTER SECOND
E. OBLIGATION AUTH INCREASED $101,000
F. OPBUD AMEND FOLS
G. FUNDS WILL BE APPLIED TO MAINTENANCE FLOOR

POC IS CAPT FOSTER, LFF-2, AV 226-0852

FC	F/SF	CAC	DUC	E/E	AMT
	R2	7017	56	Q	33,000
	P1	9120	52	Q	68,000

(1)...ACT FOR CG MCB CAMP PENDLETON(4) 11019/ 1/0158
BC(1) BK2(1) BL(1)

RTD:000-000/COPIES:0004

987885/5494/046 1 OF 1 M1 0386 046/04:36Z 181958Z FEB 90
IN:RXCA0416 CHC WASHINGTON DC//LFF-2/FDF/FDB/LCO//

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NAVMC 10890 PERFORMANCE STATEMENT PROGRAM I7007209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 1

FROM GC3180 COMMANDING OFFICER
MCAS KANEOHE
KANEOHE HAWAII 96863

TOTAL OBLIGATIONS

APPROPRIATION DATA 1781106.2720 OPBUD APPROVED FOR GC3180

DU	PE	S FF	OFFS EE		CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
08	BE	V1		P	51592	25863	77455	77455	100.0	77455	100.0	112800
08	BE	V1		U	47087		47087	47087	100.0	47087	100.0	33600
08	BE	V1		W	1683		1683	1683	100.0	1683	100.0	
	PROGRAM ELEMENT		BE/26496M		100362	25863	126225	126225	100.0	126225	100.0	146400
	LESS REIMB								0.0		0.0	
	DIRECT				100362	25863	126225	126225	100.0	126225	100.0	146400
*****	ADP		08		100362	25863	126225	126225	100.0	126225	100.0	146400
	LESS REIMB								0.0		0.0	
	DIRECT				100362	25863	126225	126225	100.0	126225	100.0	146400
12	BB	D1		U	28897		28897	28897	100.0	28897	100.0	
	PROGRAM ELEMENT		BB/26494M		28897		28897	28897	100.0	28897	100.0	
	LESS REIMB								0.0		0.0	
	DIRECT				28897		28897	28897	100.0	28897	100.0	
12	BE	DZ		Q	1191		1191	1191	100.0		0.0	
12	BE	DZ		T	5917	919	6836	5338	128.1		0.0	
12	BE	DZ		U	6618		6618	7080	93.5		0.0	
12	BE	DZ		W				340	0.0		0.0	
12	BE	DZ		Y	1159		1159	2359	49.1		0.0	
12	BE	D1		E	125562		125562	125562	100.0	125562	100.0	127000
12	BE	D1		M		7464	7464	7464	100.0	7464	100.0	
12	BE	D1		P	142400	61408	203808	203808	100.0	203808	100.0	232600
12	BE	D1		Q	409840	68479	478319	478319	100.0	477505	100.2	563300
12	BE	D1		T	177155	19599	196754	196754	100.0	197568	99.6	169900
12	BE	D1		U	2594512		2594512	2594512	100.0	2594512	100.0	2239800
12	BE	D1		W	211603	157013	368616	368616	100.0	368616	100.0	190900
12	BE	D1		Y	1104	544	1648	1648	100.0	1648	100.0	
	PROGRAM ELEMENT		BE/26496M		3677061	315426	3992487	3992991	100.0	3976683	100.4	3523500
	LESS REIMB				14885	919	15804	16308	96.9		0.0	
	DIRECT				3662176	314507	3976683	3976683	100.0	3976683	100.0	3523500
12	BJ	D1		U	2935		2935	2935	100.0	2935	100.0	
	PROGRAM ELEMENT		BJ/26495M		2935		2935	2935	100.0	2935	100.0	
	LESS REIMB								0.0		0.0	
	DIRECT				2935		2935	2935	100.0	2935	100.0	

NAVMC 10800 PERFORMANCE STATEMENT PROGRAM I7007209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 2

FROM 003180 COMMANDING OFFICER
MCAS KANEOHE
KANEOHE HAWAII 96863

TOTAL OBLIGATIONS

APPROPRIATION DATA 1781106.2720 GPBUD APPROVED FOR 003180

CU	PE	S FF	OFFS EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
*****	ADMIN	12		3708893	315426	4024319	4024823	100.0	4008515	100.4	3523500
	LESS REIMB			14685	919	15804	16308	96.9		0.0	
	DIRECT			3694008	314507	4008515	4008515	100.0	4008515	100.0	3523500
16	BE	EZ	Q	267		267		0.0		0.0	
16	BE	EZ	T	12478	765	13243	23767	55.7		0.0	
16	BE	EZ	U	49859		49859	49934	99.8		0.0	
16	BE	EZ	V	1471		1471	3800	38.7		0.0	
16	BE	EZ	W				600	0.0		0.0	
16	BE	E1	P		6390	6390 ✓		0.0		0.0	
16	BE	E1	Q	34744	43879	78623 ✓	78655	100.0	78655	100.0	54700
16	BE	E1	T	44275	4841	49116	55474	88.5	55474	88.5	63500
16	BE	E1	U	1282235		1282235	1282235	100.0	1282235	100.0	1303200
	PROGRAM ELEMENT	BE/26496M		1425329	55875	1481204	1494465	99.1	1416364	104.6	1421400
	LESS REIMB			64075	765	64840	78101	83.0		0.0	
	DIRECT			1361254	55110	1416364	1416364	100.0	1416364	100.0	1421400
*****	SPLY OPS	16		1425329	55875	1481204	1494465	99.1	1416364	104.6	1421400
	LESS REIMB			64075	765	64840	78101	83.0		0.0	
	DIRECT			1361254	55110	1416364	1416364	100.0	1416364	100.0	1421400
20	BE	F1	T	5807	667	6474	6474	100.0	6474	100.0	
20	BE	L2	R	66321	7423	73744	73744	100.0	73744	100.0	
20	BE	L2	T	709264	300048	1009312	1009312	100.0	1009312	100.0	1007900
20	BE	L2	V	1236		1236	1236	100.0	1236	100.0	6800
20	BE	L2	Y		1	1	1	100.0	1	100.0	
	PROGRAM ELEMENT	BE/26496M		782628	308139	1090767	1090767	100.0	1090767	100.0	1014700
	LESS REIMB							0.0		0.0	
	DIRECT			782628	308139	1090767	1090767	100.0	1090767	100.0	1014700
*****	FLIGHT OPS	20		782628	308139	1090767	1090767	100.0	1090767	100.0	1014700
	LESS REIMB							0.0		0.0	
	DIRECT			782628	308139	1090767	1090767	100.0	1090767	100.0	1014700
36	BJ	LA	M	2730		2730	2730	100.0	2730	100.0	

NAVMC 10890 PERFORMANCE STATEMENT PROGRAM 17007209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 3

FROM 003180 COMMANDING OFFICER TOTAL OBLIGATIONS
MCAS KANEOHE
KANEOHE HAWAII 96863

APPROPRIATION DATA 1781106.2720 OPBUD APPROVED FOR 003180

DU	PE	FF	S	OFFS EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
36	BJ	LA	N		2011834	163266	2174900	2174900	100.0	2174900	100.0	1395800
36	BJ	LA	Q		79686	21972	101658	101658	100.0	101658	100.0	200000
36	BJ	LA	T		26316	1451	27767	27767	100.0	27767	100.0	11900
36	BJ	LA	U		21069		21069	21069	100.0	21069	100.0	
		PROGRAM ELEMENT		BJ/26495M	2141435	186689	2328124	2328124	100.0	2328124	100.0	1607700
		LESS REIMB							0.0		0.0	
		DIRECT			2141435	186689	2328124	2328124	100.0	2328124	100.0	1607700
*****	BS	COMM		36	2141435	186689	2328124	2328124	100.0	2328124	100.0	1607700
		LESS REIMB							0.0		0.0	
		DIRECT			2141435	186689	2328124	2328124	100.0	2328124	100.0	1607700
38	BE	LZ	T		4722	1522	6244	4900	127.4		0.0	
		PROGRAM ELEMENT		BE/26496M	4722	1522	6244	4900	127.4		0.0	
		LESS REIMB			4722	1522	6244	4900	127.4		0.0	
		DIRECT							0.0		0.0	
38	25	LZ	Q					6850	0.0		0.0	
38	25	LZ	T		2806	622	3428	4100	83.6		0.0	
38	25	LZ	W		6508		6508		0.0		0.0	
38	25	L1	P		1723		1723	1723	100.0	1723	100.0	
38	25	L1	T		55606	13589	69195	69195	100.0	69195	100.0	73600
38	25	L1	U		1173		1173	1172	100.1	1172	100.1	
		PROGRAM ELEMENT		25/28090M	67816	14211	82027	83040	98.8	72090	113.8	73600
		LESS REIMB			9314	622	9936	10950	90.7		0.0	
		DIRECT			58502	13589	72091	72090	100.0	72090	100.0	73600
*****	BS	AVSPT		38	72538	15733	88271	87940	100.4	72090	122.4	73600
		LESS REIMB			14036	2144	16180	15850	102.1		0.0	
		DIRECT			58502	13589	72091	72090	100.0	72090	100.0	73600
40	BE	LZ	M					1944	0.0		0.0	
40	BE	LZ	Q					200	0.0		0.0	
40	BE	LZ	T		98060	2935	100995	105839	95.4		0.0	
40	BE	LZ	U		110675		110675	119622	92.5		0.0	
40	BE	LZ	V		70396		70396	68367	103.0		0.0	
40	BE	L1	Q		45679	29896	75575	70310	107.5	70310	107.5	97500

NAVMC 10800 — PERFORMANCE STATEMENT — PROGRAM I7007209 — REPORT B

OBLIGATION/RECAP — FOR PERIOD ENDING 30 SEP 1988 — PAGE 4

FROM 003180 COMMANDING OFFICER
MCAS KANEOHE
KANEOHE HAWAII 96863

TOTAL OBLIGATIONS

APPROPRIATION DATA 1781106.2720 — OPBUD APPROVED FOR 003180

DU	PE	FF	S	OFFS EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
40	BE	L1	T		229286	39487	268773	214008	125.6	214008	125.6	266000
40	BE	L1	U		962456		962456	960700	100.2	960700	100.2	722800
40	BE	L1	V		23854-		23854-	35270	67.6-	35270	67.6-	10900
40	BE	L1	Y		4045	405	4450	4450	100.0	4450	100.0	
40	BE	L7	Q		9540	63164	72704 ✓	74150	98.0	74150	98.0	8500
40	BE	L7	T		83412	6682	90094	96381	93.5	96381	93.5	96600
40	BE	L7	U		282044		282044	283800	99.4	283800	99.4	606100
40	BE	L7	V		113729		113729	107671	105.6	107671	105.6	1100
		PROGRAM ELEMENT	BE/26490M		1985468	142569	2128037	2142712	99.3	1846740	115.2	1809500
		LESS REIMB			279131	2935	282066	295972	95.3		0.0	
		DIRECT			1706337	139634	1845971	1846740	100.0	1846740	100.0	1809500
40	25	LZ	T		19097	5863	24960	29515	84.6		0.0	
40	25	LZ	W		29135	11969	41104	39790	103.3		0.0	
		PROGRAM ELEMENT	25/28090M		48232	17832	66064	69305	95.3		0.0	
		LESS REIMB			48232	17832	66064	69305	95.3		0.0	
		DIRECT							0.0		0.0	
*****	BS	SERV	40		2033700	160401	2194101	2212017	99.2	1846740	118.8	1809500
		LESS REIMB			327363	20767	348130	365277	95.3		0.0	
		DIRECT			1706337	139634	1845971	1846740	100.0	1846740	100.0	1809500
44	BB	MZ	Q		97482	5802	103284	103600	99.7		0.0	
44	BB	MZ	T		149771	46297	196068	225973	86.8		0.0	
44	BB	MZ	U		579953		579953	654298	88.6		0.0	
44	BB	M1	Q		141220	2750755	2891975	2943800	98.2	2943800	98.2	3431200
44	BB	M1	T		920648	140329	1060977	1009095	105.1	1009095	105.1	298200
44	BB	M1	U		4058256		4058256	4058256	100.0	4058256	100.0	3902100
44	BB	M1	Y		1963	30	1993	2050	97.2	2050	97.2	
44	BB	M2	Q		109062	6779908	6888970	6888970	100.0	6888970	100.0	
44	BB	M2	T		43		43	43	100.0	43	100.0	
		PROGRAM ELEMENT	BB/26494M		6058398	9723121	15781519	15886085	99.3	14902214	105.9	7631500
		LESS REIMB			827206	52099	879305	983871	89.4		0.0	
		DIRECT			5231192	9671022	14902214	14902214	100.0	14902214	100.0	7631500
44	BE	MZ	Q					500	0.0		0.0	
44	BE	MZ	T					15020-	0.0		0.0	

NAVMC 10890 PERFORMANCE STATEMENT PROGRAM 17007209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 5

FROM 003180 COMMANDING OFFICER TOTAL OBLIGATIONS
MCAS KANEOHE
KANEOHE HAWAII 96863

APPROPRIATION DATA 1781106.2720 OPBUD APPROVED FOR 003180

OU	PE	S FF	OFFS	EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
44	BE	MZ		D				8201	0.0		0.0	
		PROGRAM ELEMENT BE/26496M						6319-	0.0		0.0	
		LESS REIMB						6319-	0.0		0.0	
		DIRECT							0.0		0.0	
*****	MAP		44		6058398	9723121	15781519	15879766	99.4	14902214	105.9	7631500
		LESS REIMB			827206	52099	879305	977552	89.9		0.0	
		DIRECT			5231192	9671022	14902214	14902214	100.0	14902214	100.0	7631500
48	BB	MZ		M	3187842	38759	3226601	3240075	99.6		0.0	
48	BB	MZ		Q	3042	1958	5000	5500	90.9		0.0	
48	BB	MZ		T	48836	2356	51192	50170	102.0		0.0	
48	BB	MZ		U	49908		49908	61460	81.3		0.0	
48	BB	M1		M	2095450	19324	2114774	2114774	100.0	2114774	100.0	2211300
48	BB	M1		Q	3982	5513	9495	9495	100.0	9495	100.0	17200
48	BB	M1		T	35062-		35062-	35062-	100.0	34162-	102.6	
48	BB	M1		U	137854		137854	137854	100.0	137854	100.0	96000
48	BB	M1		V	168605	1013	169618	169618	100.0	169618	100.0	72000
		PROGRAM ELEMENT BB/26494M			5660457	68923	5729380	5753824	99.6	2397579	239.0	2396500
		LESS REIMB			3289628	43073	3332701	3357145	99.3		0.0	
		DIRECT			2370829	25850	2396679	2396679	100.0	2397579	100.0	2396500
48	BE	MZ		M				6601-	0.0		0.0	
48	BE	MZ		T				3000	0.0		0.0	
48	BE	MZ		U				2000	0.0		0.0	
		PROGRAM ELEMENT BE/26496M						1601-	0.0		0.0	
		LESS REIMB						1601-	0.0		0.0	
		DIRECT							0.0		0.0	
*****	UTIL OPS		48		5660457	68923	5729380	5752223	99.6	2397579	239.0	2396500
		LESS REIMB			3289628	43073	3332701	3355544	99.3		0.0	
		DIRECT			2370829	25850	2396679	2396679	100.0	2397579	100.0	2396500
52	BB	PZ		Q	190413	45965	236378	236793	99.8		0.0	
52	BB	PZ		T	30616	1554	32170	39260	82.1		0.0	
52	BB	PZ		U	620152		620152	634532	97.7		0.0	
52	BB	P1		M					0.0		0.0	353600

NAVMC 10070 PERFORMANCE STATEMENT PAGE 6

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988

FROM 003180 COMMANDING OFFICER
MCAS KANEOHE
KANEOHE HAWAII 96863

TOTAL OBLIGATIONS

APPROPRIATION DATA 1781106.2720

OPBUD APPROVED FOR 003180

DU	PE	FF	S	OFFS EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
52	BB	P1	Q		102626	728565	831191 ✓	831191	100.0	831191	100.0	29500
52	BB	P1	T		181096	9451	190547	190547	100.0	192237	99.1	105900
52	BB	P1	U		1295709		1295709	1295710	100.0	1295710	100.0	1236400
52	BB	P1	V		1980	3600	5580	5580	100.0	5580	100.0	
52	BB	P1	Y		3505	1043	4548	4548	100.0	4548	100.0	
		PROGRAM ELEMENT		BB/264944	2426097	790178	3216275	3238101	99.3	2329266	138.1	1725400
		LESS REIMB			841181	47519	888700	910525	97.6		0.0	
		DIRECT			1584916	742659	2327575	2327576	100.0	2329266	99.9	1725400
52	BE	P1	T						0.0	1690-	0.0	
		PROGRAM ELEMENT		BE/264946					0.0	1690-	0.0	
		LESS REIMB							0.0		0.0	
		DIRECT							0.0	1690-	0.0	
*****	GEN	ENG SPT		52	2426097	790178	3216275	3238101	99.3	2327576	138.2	1725400
		LESS REIMB			841181	47519	888700	910525	97.6		0.0	
		DIRECT			1584916	742659	2327575	2327576	100.0	2327576	100.0	1725400
56	BB	AZ	Q		168950	11050	180000	185350	97.1		0.0	
56	BB	RZ	T		13278	3172	16450	60150	24.0		0.0	
56	BB	RZ	U		500		500	104	480.8		0.0	
56	BB	R1	Q		23278	423224	446502	446502	100.0	446502	100.0	308500
56	BB	R1	T		39889	32023	71912	71912	100.0	71912	100.0	125900
56	BB	R1	U		7640		7640	7640	100.0	7640	100.0	30600
56	BB	R2	Q		653727	3871611	4525338	4525338	100.0	4525338	100.0	
56	BB	R2	T		311		311	311	100.0	311	100.0	
		PROGRAM ELEMENT		BB/264944	907573	4339080	5246653	5297307	99.0	5051703	103.9	465000
		LESS REIMB			182728	12222	194950	245604	79.4		0.0	
		DIRECT			724845	4326858	5051703	5051703	100.0	5051703	100.0	465000
*****	MAR	CON		56	907573	4339080	5246653	5297307	99.0	5051703	103.9	465000
		LESS REIMB			182728	12222	194950	245604	79.4		0.0	
		DIRECT			724845	4326858	5051703	5051703	100.0	5051703	100.0	465000
40	BE	SZ	Q		20887	6382	27269	37100	73.5		0.0	
40	BE	SZ	T		65341	30557	95898	85900	111.6		0.0	
40	BE	SZ	V		2992		2992	3000	99.7		0.0	

NAVMC 10890 PERFORMANCE STATEMENT PROGRAM I7007259 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 7

FROM 003180 COMMANDING OFFICER TOTAL OBLIGATIONS
MCAS KANEOHE
KANEOHE HAWAII 96863

APPROPRIATION DATA 1781106.2720 OPBUD APPROVED FOR 003180

DU	PE	S FF	OFFS	EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
60	BE	SZ		W		33258	33258	34000	97.8		0.0	
60	BE	S1		Q	537830	115656	653486	653085	100.1	653085	100.1	468200
60	BE	S1		T	120857	6253	127110	127114	100.0	127114	100.0	391900
60	BE	S1		U	473326		473326	473326	100.0	474326	99.8	486800
60	BE	S1		V	402		402	799	50.3	799	50.3	
60	BE	S1		W	21298	540	21838	21838	100.0	20838	104.8	
		PROGRAM ELEMENT	BE/26496M		1242933	192646	1435579	1436162	100.0	1276162	112.5	1346900
		LESS REIMB			89220	70197	159417	160000	99.6		0.0	
		DIRECT			1153713	122449	1276162	1276162	100.0	1276162	100.0	1346900
*****		MAR SPT	60		1242933	192646	1435579	1436162	100.0	1276162	112.5	1346900
		LESS REIMB			89220	70197	159417	160000	99.6		0.0	
		DIRECT			1153713	122449	1276162	1276162	100.0	1276162	100.0	1346900
66	BE	SZ		Q	1976	2595	4571	5264	86.8		0.0	
66	BE	SZ		T	5845	7	5852	6000	97.5		0.0	
66	BE	S1		Q	82	1265	1347	1347	100.0	1347	100.0	352000
66	BE	S1		T	12889	440	13329	13329	100.0	13329	100.0	
66	BE	S1		W	23078	519496	542574	542574	100.0	542574	100.0	38600
		PROGRAM ELEMENT	BE/26496M		43870	523803	567673	568514	99.9	557250	101.9	390900
		LESS REIMB			7821	2602	10423	11264	92.5		0.0	
		DIRECT			36049	521201	557250	557250	100.0	557250	100.0	390900
*****		BACH MSG SPT	66		43870	523803	567673	568514	99.9	557250	101.9	390900
		LESS REIMB			7821	2602	10423	11264	92.5		0.0	
		DIRECT			36049	521201	557250	557250	100.0	557250	100.0	390900
68	BE	SZ		Q	27876	14435	42311	40344	104.9		0.0	
68	BE	SZ		T				4000	0.0		0.0	
68	BE	S1		M	931		931	931	100.0	931	100.0	
68	BE	S1		Q	1329322	541606	1870928	1870870	100.0	1870870	100.0	953300
68	BE	S1		T	177882	26287	204169	204371	99.9	204371	99.9	847300
68	BE	S1		U	272559		272559	272569	100.0	272569	100.0	285600
68	BE	S1		V	5719		5719	5719	100.0	5719	100.0	
68	BE	S1		W	992	858	1850	1850	100.0	1850	100.0	
		PROGRAM ELEMENT	BE/26496M		1815281	583186	2398467	2400654	99.9	2356310	101.8	2086200
		LESS REIMB			27876	14435	42311	44344	95.4		0.0	
		DIRECT			1787405	568751	2356156	2356310	100.0	2356310	100.0	2086200

NAVMC 10890 PERFORMANCE STATEMENT PROGRAM I7C07209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 8

FROM 003180 COMMANDING OFFICER TOTAL OBLIGATIONS
MCAS KANEOHE
KANEOHE HAWAII 96863

APPROPRIATION DATA 1781106.2720 OPBUD APPROVED FOR 003180

DU	PE	S FF	OFFS	EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
*****	PERS SPT		68		1815281	583186	2398467	2400654	99.9	2356310	101.8	2086200
	LESS REIMB				27876	14435	42311	44344	95.4		0.0	
	DIRECT				1787405	568751	2356156	2356310	100.0	2356310	100.0	2086200
	SUBHEAD		2720		28419494	17285663	45705157	45937088	99.5	39757619	115.0	25639200
	LESS REIMB				5686019	266742	5952761	6180369	96.3		0.0	
	DIRECT				22733475	17022321	39755796	39756719	100.0	39757619	100.0	25639200

NAVMC 10890 PERFORMANCE STATEMENT PROGRAM I7007209 REPORT B

OBLIGATION/RECAP FOR PERIOD ENDING 30 SEP 1988 PAGE 9

FROM 003180 COMMANDING OFFICER TOTAL OBLIGATIONS
MCAS KANEOHE
KANEOHE HAWAII 96863

APPROPRIATION DATA 1781106.2780 OPBUD APPROVED FOR 003180

DU	PE	S FF		OFFS	EE	CURRENT YTD EXPENSES	CURRENT YEAR UNFIL ORDERS	TOTAL OBLIGATIONS	AUTHORIZATIONS AMT TO DATE	% AUTH TO DATE	COMMAND PLAN	% CMD PLAN	ORIGINAL PLAN
12	8F	D1				622830		622830	627040	99.3	627040	99.3	
		PROGRAM ELEMENT	8F/89732M			622830		622830	627040	99.3	627040	99.3	
		LESS REIMB								0.0		0.0	
		DIRECT				622830		622830	627040	99.3	627040	99.3	
		ADMIN		12		622830		622830	627040	99.3	627040	99.3	
		LESS REIMB								0.0		0.0	
		DIRECT				622830		622830	627040	99.3	627040	99.3	
		SUBHEAD		2780		622830		622830	627040	99.3	627040	99.3	
		LESS REIMB								0.0		0.0	
		DIRECT				622830		622830	627040	99.3	627040	99.3	
		OPERATING BUDGET		003180		29042324	17289063	46331387	46564128	99.5	40384659	114.7	25639200
		LESS REIMB				5686019	266742	5952761	6180369	96.3		0.0	
		DIRECT				23356305	17022321	40378626	40383759	100.0	40384659	100.0	25639200

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